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# ACCOUNTANT

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AND ACCOUNTANCY THROUGHOUT THE WORLD



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VOLUME CXLVII - JULY to DECEMBER 1962

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# THE JENKINS REPORT

# Profit and Loss Accounts

VIME was when the accounts provisions of the Companies Act made a cinderella of the profit and loss account, the emphasis being on the balance sheet. The Cohen Committee of 1945 changed that, and the Jenkins Committee is now giving some impetus to the change. One modern phenomenon is the selling of a company's premises to insurance and other investing companies, and taking a lease back at a full rack-rent. A company carrying out this device is able to charge the full rent in arriving at its taxable profit, while the proceeds of sale of the freehold are, of course, tax free. On the other hand, the profits become more vulnerable, since the rent has to be met regardless of profitability. The Committee thinks that shareholders should know how much of the company's gross earnings are committed in this way. To a lesser extent a similar process takes place with plant and machinery. Instead of buying such expensive things outright, a company may rent them, and here again the rent becomes a first charge on the company's gross earnings. The Committee makes the points that these charges are the equivalent, economically speaking, of interest on debentures and other fixed loans or, in the case of plant and machinery, depreciation. Since these latter items have to appear on the profit and loss account, the rents ought also to appear. The Report of the Committee recommends that rents paid for land and buildings be shown separately from rents paid for plant and machinery.

Bank overdrafts figure prominently in the balance sheets of many companies. The Committee thinks that the debits for bank overdraft interest, and interest on other 'short-term' loans, ought to appear in the profit and loss account just as much as debenture interest; five years or less being envisaged as 'short-term'.

It is a trite saying that the State is the senior partner in every business. With the present rates, the charge for taxation must inevitably be one of the major items of expenditure. The preceding-year basis of assessment obtaining in the United Kingdom means that the tax of one year is based on the profit of the preceding year. Where there are violent fluctuations of profit, particularly a sharp increase, it would be misleading to show in the profit and loss account the legal tax liability actually incurred. Thus it has become the general practice to debit tax which will be computed on the profit shown by the accounts, i.e. to debit next year's tax before it has been imposed. This gave rise to controversy as to whether such a debit was a provision or a reserve: the general

consensus of opinion being that it was the latter. As a compromise, the practice is widespread of showing separately an item for 'future income tax'. The Committee thinks that if future income tax of this kind is debited in the profit and loss account, there should be a legal liability to show it separately in the balance sheet.

The comparatively generous income tax and profits tax provisions for investment and initial allowances can produce a wide variation between profits as computed for tax and profits as computed on ordinary accounting principles, where the depreciation charge is computed on a more uniform basis. To even out the tax it has become common to charge, to profit and loss, tax on the excess of the income tax capital allowances over the depreciation allowances debited in the accounts. This reserve can be utilized later when the position is reversed. Such a reserve is, of course, another example of future tax, although possibly on a longer-term basis, and should be shown separately. If such reserves are not created, or are inadequate, then in the Committee's opinion the accounts should contain a note of explanation.

Events may prove that a reserve for future taxation is excessive. Until that happens, it is not considered that the reserve, once made, should be used for the purpose of paying dividends. If it is used for any other purpose, the accounts should reveal the fact. Sometimes a company revalues its assets and writes them up. It should then charge depreciation on the new value, whereas the income tax allowances will continue to be based on the old value. The Committee gives a warning that a situation may be arrived at where the general requirement to give a true and fair view may make it necessary to include some explanation in the accounts.

There are other problems thrown up by the vagaries of income tax. A heavy debit balance to profit and loss account may be accompanied by extensive past losses which have been agreed with the Revenue for carry forward, so that the company may be in a position to make large profits which for some years will effectively be tax free. The Committee recommends, in a general way, that the Companies Act should require a company's accounts to disclose any special circumstances significantly affecting its current and

future liability to tax, in so far as this information is not already given through the items of future tax.

Some disputes with the Revenue go on for a long time. Presumably if the Revenue were threatening to raise heavy additional assessments on a back duty basis, or because they had changed their mind about the chargeability of certain items (e.g. receipts for the sale of 'know-how') or the deductibility of other items, it might be misleading merely to show the future tax on a basis which assumed that the Revenue were going to be proved wrong.

In its submissions to the Committee, The Institute of Chartered Accountants in England and Wales drew attention to paragraph 12 (1) (c) of the Eighth Schedule to the Companies Act, 1948, which requires the charge for United Kingdom income tax on profits to include 'as United Kingdom income tax any taxation imposed elsewhere to the extent of the relief, if any, from United Kingdom income tax'. The Institute made two very pertinent comments on this. First, it has the effect of requiring overseas tax to be described, wrongly, as United Kingdom income tax. Secondly, the reference to relief from 'United Kingdom income tax' does not recognize that under present law any relief from overseas taxation is given primarily against profits tax. The Institute submitted that the provisions should be amended to require, in the case of companies subject to overseas tax, the disclosure of

- (a) the amount, before double tax relief, of United Kingdom tax, distinguishing profits tax from income tax;
- (b) the amount of double tax relief;
- (c) the amount of overseas tax.

The Committee has accepted this suggestion *in toto* and has put it forward as a recommendation.

When first reviewing the Jenkins Report we expatiated on the problems concerned with the pre-acquisition profits of subsidiary companies. For the reasons we have already given, the taxation figures of the subsidiary greatly affect the measure of these pre-acquisition profits. The controversy we mentioned, as to whether future tax was a provision or a reserve, gave rise to difficulty where a subsidiary was acquired. The

Committee recommends that unless the contract of acquisition of a subsidiary otherwise specifies, the acquiring company should treat the subsidiary's 'future tax' as a provision, for the purpose of determining the amount of the preand post-acquisition profits of the acquired company.

In its submissions, the Institute criticized paragraph 17 of the Eighth Schedule, which requires a consolidated profit and loss account to combine the information contained in the individual profit and loss accounts. It pointed out that auditors' remuneration appears in an individual profit and loss account only if it is not fixed by the company in general meeting (paragraph 13) so that an aggregation of such remuneration as happened to be shown is really valueless. It suggested that consolidated profit and loss accounts should not be required to show auditors' remuneration. The Committee criticizes paragraph 13 itself, pointing out that it seems to rest on the assumption that shareholders attend company meetings. The Committee's solution of both problems, therefore, is to recommend that auditors' remuneration should always be shown in the profit and loss account. A combination of the separate figures would then no longer be misleading.

The Committee declines to adopt a suggestion that legislation be introduced to make it compulsory for accounts to show, by geographical area and by industry, how the profits are derived and their relationship to assets employed. It does not deny that such information would be useful to shareholders. It would welcome an extension of the practice, which some companies already follow, of providing information of this kind. Obviously, much will depend on the personalities of the particular directors, but the alternative of drafting legislation which met the demand, without imposing intolerable burdens, would present almost insuperable obstacles.

On the general aspect of showing a company's profit, the Committee quotes an observation of the Institute that opinions may legitimately vary as to what may be shown for a specific year, and in particular as to how items relating to the results of the operations of past years should be shown. The Committee thinks that it should be made clear in the Act that exceptional credits or charges, in respect of earlier years, should be

required to be passed through the profit and loss account but that they need not necessarily be included in the amount shown as the profit or loss of that year.

Both the English Institute and The Association of Certified and Corporate Accountants, in their separate memoranda of evidence to the Committee, expressed the view that the time had come to require companies to disclose their turnover, with an exemption where the directors were prepared to certify that disclosure would be harmful to the company. The Committee endorses this suggestion. It points out that a company's turnover, used in conjunction with other information, can provide investors with a useful guide to the progress of the business. Even where a company or group carries on diversified activities, so that the aggregate figure of turnover for one year does not convey very much, the trend of the turnover figure, measured over a number of years, could be of great value. Naturally there has been opposition to this change, but American witnesses who gave evidence to the Committee were unanimous in their opinion that disclosure of turnover in the United States (where it has for some years been a statutory obligation in respect of quoted stocks) had not caused material harm. As regards difficulties of definition, it could be left with the directors to decide what gave a true and fair view of turnover. The Committee's own broad definition was the total amount receivable, in the ordinary course of business, for goods sold or supplied by the company as principal, and for services provided by it. Whatever method is chosen should, of course, be revealed. Companies which are not quoted companies would not be required to include the information in accounts filed with the Registrar.

The Committee recommends that the annual accounts should include a five-year summary of the issued capital, reserves, and profit and loss account balances; the annual profits before and after tax; the annual dividend; and the turnover. It also welcomes the growing practice of giving interim statements of profit (or loss).

It is difficult to see what objection could be made to these very modest proposals of the Committee and it is to be hoped that they will not be whittled down by the Government.

# A Corporation Tax Considered

by H. S. A. MACNAIR, F.C.A.

In his Budget speech on April 9th, the Chancellor of the Exchequer said that the Inland Revenue had gone a considerable way toward framing a single corporation tax to replace income tax and profits tax on companies. Some complex technical problems were involved, however, and he had asked the Revenue to discuss the draft scheme with the professional bodies concerned. This article considers some of the issues which arise.

HE Royal Commission on the Taxation of Profits and Income, whose activities extended from 1951 to 1955, gave serious consideration to the desirability of a single corporation tax which would replace income tax and profits tax. In this the Commission was encouraged by the opportunity such a change would present for the substitution of the current year basis of assessment in place of the existing system. It was felt that when the latter question had been considered on previous occasions in relation to Schedule D assessments generally, an overwhelming obstacle had been found to lie in the very large number of adjustments that would be required to bring the tax liabilities of the individual or a partnership from provisional to final ascertainment.

The problems of adjusting provisional liability in the case of 200,000 companies taxed at a uniform rate would, however, be on a much smaller scale than the problems that would arise in dealing with  $1\frac{1}{2}$  million individuals and partners liable at varying rates and having differing personal circumstances. Moreover, the differences between the two systems of taxation applicable to companies and individuals, with profits tax on the one side and surtax or personal reliefs on the other, make it no anomaly that the profits of one group should be based on the current year and those of the other on a preceding year.

# Objection to Existing System

One objection to the existing system is that many companies have a double charge on the same profits in the early years of their business, while a corresponding period is omitted from assessment when they go out of business. Certain problems arising in this connection have been obviated by section 17 of the Finance Act, 1954, in relation to succession and 'hiving-off' operations, while double taxation relief anomalies received attention in section 18 of the Finance Act, 1961. Neverthe-

less, many problems remain. It not infrequently happens that a company has occasion to change its accounting date and the resulting complications may be appreciated from the fact that the official explanatory memorandum requires six foolscap pages to explain the simpler cases while more complex circumstances have to be made the subject of special solutions.

Again, in relation to opening years, The Institute of Chartered Accountants in England and Wales has recommended that new companies should set aside from profits, amounts additional to the charge for the accounting year towards the balance of the tax payable for the current and following income tax years, until all income tax based on profits to date has been set aside. In the meantime, the accounts should disclose the amount of the deficiency. It is manifestly unsatisfactory that distribution of profits by a new company should be inhibited in this manner and a change to the current year basis would bring the weight of tax more immediately into relation with the income that is being taxed.

# Corporation Tax Modus Operandi

What might be the *modus operandi* of a corporation tax? One method would require a provisional assessment to be made at the commencement of a company's accounting year and a statutory basis laid down for enforcement of provisional payments, perhaps at quarterly intervals. Tax which proved on final assessment to have been overpaid could be repaid at a commercial rate of interest or, if the interest were to be tax-free, at the rates currently applicable to Tax Reserve Certificates. In either case it would be necessary to reconsider the rate of interest exacted on overdue tax under section 495 of the Income Tax Act, 1952.

From the point of view of the Government, it is desirable that the pattern of tax collections should not be disturbed by the introduction of a

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corporation tax. At present, company income tax is due on January 1st, while profits tax collections are scattered irregularly over the year. Bearing in mind the wide preference for the calendar year as the accounting period, it would probably be satisfactory to relate the bulk of the collections to the terminal date of a company's accounting period. Since the ascertainment of the precise liabilities could not be finalized until after the end of that period and probably not until after the end of the Government's financial year on March 31st following, some arrangements would be required to ensure collection of tax on a satisfactory scale.

# **Australian System**

It may be helpful to consider the system in force in Australia as laid down by the Commonwealth Income Tax and Social Services Contribution Assessment Act, 1936–1961 (Part VI, Division 3). Briefly this system postulates a 'provisional income' upon which a provisional tax is levied. The provisional income is normally measured by reference to the ascertained results of the preceding year, but rules are set out which enable either the company or the Revenue to substitute a revised measure by reference to the facts available at a date not later than three-quarters of the way through the accounting year. Under the Australian system inaccurate forecasts are penalized and it would appear that the prompt notification of material variations in the trend of profits would lead to more accurate Budget estimates than are possible from the present random sample inquiries.

The Australian 'provisional tax' is provisional in name only, being invested with the dignity of what is virtually a distinct tax so that the measures for its assessment and collection appear more efficient than the arrangement predicated by the Royal Commission. The latter requires the making of premature, estimated assessments, all of which would have to be appealed against, and in respect of which the collection of payments on account would be likely to prove an uncertain and haphazard process. Assessments in respect of 'provisional tax', however, would not require to be made the subject of appeals except where there had been a material change of circumstances, since they would regulate the scale of collection and not the final liability. The provisional tax paid would, of course, be credited against the corporation tax ultimately due. It is interesting to note that what is, in effect, a 'provisional tax' is already in operation in the United Kingdom in certain instances in accordance with the procedure detailed in paragraph 56 of the Income Tax (Employments) Regulations, 1962.

# **Transitional Assessments**

Another point of interest concerns the transition from assessments representing the liability for the fiscal year ending at April 5th to assessments coterminous with a company's accounting period. Assuming that the appointed day is April 6th, 1963, it would be necessary to arrange for the corporation tax to be charged in respect of the broken period from that date to the end of the first accounting period in which the appointed day falls. The problem would then arise as to what adjustment should be made in respect of the profits for the 'interval' between the end of the basis period for 1962-63 and April 6th, 1963. To take the case of a company whose accounts are made up for calendar years, the interval would extend from January 1st, 1962, to April 5th, 1963, i.e. some fifteen months. The Royal Commission favoured the averaging of the three final years but having regard to the difficulties experienced in computing such averages under the change of accounting date rule referred to above, and the undesirability of the general uncertainty that this would entail in regard to the scale of transitional liabilities, it would appear preferable for the penultimate year's assessment to be allowed to stand, only the final year being adjusted to actual. The examples below indicate that this suggestion need not produce a result materially different from that which would have resulted from averag-

A compan for the cal December lows:	endar yea	ar to	Example I L	Example II £	Example III £
1960			15,000	6,000	24,000
1961			15,000	12,000	18,000
1962			15,000	18,000	12,000
1963	••	• •	15,000	24,000	6,000
			60,000	60,000	60,000
Corporationable for the to December	e nine mo	nths			
would be:	• •	• •	11,250	18,000	4,500
Leaving	a balance	of:	£48,750	£42,000	£55,500.

The latter figures represent the actual profits of the thirty-nine months making up the basis period for the two last years of assessment 1961-62 and 1962-63, together with the profits of the 'interval'. In accordance with the usual

practice on a change of accounting date, these profits are averaged to produce a figure for the total assessments required for the two final years of assessment, the revised assessment for 1961-62, the penultimate year, being obtained by deducting the 1962-63 assessment computed on the actual basis.

Average profits for twenty-four months	or £ 30,000	£ 25,846	£ 34,154
Less 1962-63 on 'actual'	. 15,000	19,500	10,500
1961-62 (Revised) .	£15,000	£6,346	£23,654
The revised assessment for the penultimat year thus obtaine compare with the orig inal assessments a	e d :-	£6,000	£24,000.
follows:			~

The Board of Inland Revenue could be empowered to grant discretionary relief to meet any hard cases that might transpire. However, in accordance with the existing practice where a change of accounting date is concerned, it is suggested that relatively small differences such as occur in the example above should be ignored. 'Small' for this purpose would apply to a difference that did not exceed 10 per cent of the average of the current and preceding years' assessments and was less than £1,000.

With regard to capital allowances which, strictly speaking, should be adjusted on a change of basis periods, it is not certain that the Revenue insist on revision of the claims in connection with a change of accounting date. On the introduction of a corporation tax it would be necessary to decide on the treatment of acquisitions and disposals of fixed assets occurring in the 'interval' which in the foregoing example extends from January 1st, 1961, to April 5th, 1963. It seems desirable that the taxpayer should be given the option of treating all such events as having taken place at April 6th, 1963, or whatever may be the appointed day, as an alternative to revision of claims for the final and penultimate periods.

# **Treatment of Company Dividends**

A problem of some importance concerns the treatment of company dividends. The recent House of Lords decision in *Cenlon Finance Co Ltd v. Ellwood* ([1962] T.R. 1), reaffirms the rule that dividends are not to be subjected to income tax in the hands of investors, apparently on the basis of an equitable principle derived from partnership law whereby the fund of profits from

which dividends are paid may only be charged once with income tax (as opposed to surtax).

In the report of the Royal Commission on Taxation (Cmd 9474) a minority view was expressed that the treatment of dividends should be assimilated to that of debenture interest and other annual charges. It seems, however, that this solution would involve injustice to shareholders, since credit would be denied for income tax paid on profits accumulated prior to the appointed day. Instead, it could be arranged that profits which have borne corporation tax at a rate not less than the standard rate of income tax should be regarded as 'franked' when declared as dividends.

Presumably it would continue to be necessary for such dividends to be grossed up for surtax purposes in order to avoid loss of revenue. It is not clear, however, why the system of grossing up should be retained for income tax purposes since this aspect of the existing law is the cause of endless difficulties over dividend stripping, while the fact that many important companies have low net United Kingdom rates gives rise to confusion and annoyance on the part of the smaller investors for whose benefit, apparently, the system has been kept in being since their anticipated repayments are often diminished or nullified by the provisions of section 350 of the Income Tax Act, 1952.

These difficulties could, it is suggested, be overcome if the treatment of dividends in the hands of individual taxpayers was assimilated to that of building society interest. In the case of corporate recipients it would be sufficient to extend the 'franked investment income' rules of profits tax to cover the income tax element also.

# **Annual Payments**

It remains to consider what treatment should be accorded to annual payments and other charges on the income of companies. It could be provided that these should be regarded as 'franked' (covered) to the extent of retained profits and other income of the accounting period. In this connection, only a minor change in the law is required in order that section 170 assessments should become competent in respect of accounting periods where reference to the fiscal year is inappropriate.

In conclusion it may be noted that the deduction of net annual values in Case I computations will not give rise to difficulty if the proposed elimination of Schedule A tax for owner occupiers were to be put into effect at the same date that a corporation tax was introduced.

# ACCOUNTANT

# Materials and Labour Variances in Standard Costing

# A NEW APPROACH

by R. H. PARKER, B.Sc.(Econ.), A.C.A., Senior Lecturer in Commerce University of Western Australia

OST accounting textbooks usually recognize the following variances as likely to arise from accounting for materials and labour in a standard costing system:

(1) Materials price variance which arises from paying more or less than standard price for materials and is conventionally calculated as:

Actual quantity ×

(actual unit cost—standard unit cost)

(2) Materials usage variance which arises from using more or fewer materials than standard and is conventionally calculated as:

Standard unit price×

(actual quantity-standard quantity)

(3) Labour rate variance which arises from paying more or less than the standard rate and is conventionally calculated as:

Actual hours ×

(actual rate—standard rate)

(4) Labour efficiency variance which arises from working more or fewer labour hours than standard and is conventionally calculated as: Standard rate × (actual hours—standard hours)

# Joint Variance

But is the conventional analysis in fact valid? Let us consider the following example in which the word 'unit' may be taken to refer to either units of material or labour hours.

	Units	Unit	Total
		cost	cost
		s	£
Actual	 1,100	21	1,155
Standard	 1,000	20	1,000
Variance	 100	I	£155
		===	

The total variance is £155. Consider first of all the price (or rate) variance. Such a variance would arise if price (or rate) alone varied, i.e. in this case:

Price (or Rate) Variance =
Price (or Rate) Variation ×Standard Quantity
= 1s × 1,000
=£50

A usage (or efficiency) variation would arise if the number of units used (or hours worked) alone varied, i.e. in this case:

Usage (or efficiency) variance =

Usage (or efficiency) variation x standard price

$$=100 \times 208$$
  
= $f_{100}$ 

There is still £5 of the total variance to be explained. This is the product of the price (or rate) variation and the usage (or efficiency) variation and may be termed the joint variance.

The conventional analysis would give the following results:

Price (or rate) variance 
$$=1,100 \times 1s$$
  
 $=£55$   
Usage (or efficiency) variance  $=20s \times 100$   
 $=£100$ 

Such an analysis implicitly assumes, in the case of materials, that not only is the buying department to be held accountable for the rise in the unit price of materials but also in some measure for more materials being used than the standards set allow. It is suggested, therefore, that the segregation of the joint variance is more useful for purposes of cost control.

# Resolving a Problem

One further problem arises. It is usual to record a materials price variance at the point of purchase rather than the point of usage. This enables the materials control account and subsidiary stock records to be kept entirely in terms of standard costs with a consequent saving in the amount of clerical work needed. In this case, the price variance is necessarily calculated as:

Price variation × actual quantity purchased and thus includes the joint variance, which cannot be calculated until the usage variation is known.

A possible solution is to calculate the joint variance at the end of the reporting period. Suppose, for example, we have the following data:

Materials purchased January 1st to 6th - 1,160 units at 21s each

Materials put into production - 1,100 units Standard usage of materials - 1,000 units Standard price - 20s per unit

The accounts would then be as follows:

Jan. 1st to 6th Accounts payable	Materials f 1,160	Control  Jan. 1st to 6th Materials in process Jan. 1st Materials usage vari- to 6th ance Jan. 6th Balance c/d	1,000 1,000
* .	£1,160	-	£1,160
Jan. 7th Balance b/d	60	•	
Ma	terials Pr	ice Variance	
Jan. 1st to 6th Accounts payable	£58	Jan. 6th Materials joint variance (100×1s)	£
	terials Use	ige Variance	
Jan. 1st to 6th Materials control	£100		
Ma Ma	țerials Joi	nt Variance	
Jan. 6th Materials price var	. £5	•	

The materials price variance is £53. It should be noted that this represents:

Price variation ×(Standard material usage + materials in stock at standard price)
i.e. 1s×(1,000+60)

It must be admitted that this method can become complicated. If the variances are usually small, then it may be preferable to use the conventional analysis – always provided, of course, that its theoretical weaknesses are clearly understood.

No such problem arises with labour variances, since nothing is gained by keeping the labour control account in terms of standard rates. The variances can just as easily be segregated through the labour-in-process account.

# What to do with Joint Variance?

What should be done with the joint variance once it has been calculated? The answer depends on the reasons for the main variances. If, in the example given above, it were decided that the price variance was due to external causes beyond the control of the firm, whilst the usage variance was due to inefficiency, then the following journal entry could be made:

Cost of goods sold (and/or materials in process and finished goods stock) Loss from inefficiency	£ 53 105	£
. Materials price variance	J	53
Materials usage variance		100
Materials joint variance		5

If, on the other hand, it were decided that the price variance arose from bad buying and the usage variance from a faulty standard then the entry could be:

	£	£
Cost of goods sold etc	 100	
Loss from inefficiency	 58	
Materials price variance	 -	53
Materials usage variance		100
Materials joint variance		. 5

Conventional analysis would have produced the following entry under the first assumption:

		£.	£.
Cost of goods sold etc.		 58	~
Loss from inefficiency		 100	
Materials price variance	•		58
Materials usage variance			100

and the entry below under the second assumption:

	£	£
Cost of goods sold etc	 100	
Loss from inefficiency	 58	
Materials price variance	 Ū	58
Materials usage variance		100

It is clear that both these entries are incorrect.

Note: The existence of the joint variance can be shown algebraically as follows:

Let:

PS be the standard price of one unit
be the actual price of one unit
US be the standard usage in units
UA be the actual usage in units  $\Delta P = PA - PS = price \text{ variation}$   $\Delta U = UA - US = \text{usage variation}$ 

Then the total variance will be:

 $\begin{array}{l} (P_A \times U_A) - (P_S \times U_S) \\ = (P_S + \Delta P) (U_S + \Delta U) - (P_S \times U_S) \\ = (\Delta P \times U_S) + (\Delta U \times P_S) + (\Delta P \times \Delta U) \end{array}$ 

The three variances can be shown graphically as below, where AB=standard usage, AC= actual usage, AD=standard price and AE= actual price.

E	Price or Rate Variance		Joint Variance	
	•		Usage or Efficiency Variance	
A .		В		C

<sup>1</sup> c.f. R. H. Watson, "Two Variate Analysis', *The Accounting Review*, Vol. XXXV, No. 1 January, 1960.

# The Accounting World

# TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

# **NEW ZEALAND**

# **Incentive Budget**

THE National Party Government's second Budget delivered on June 28th offers to the New Zealand exporter the right to deduct 150 per cent of the actual amount spent by him on the promotion of exports. There will be a general reduction of 5 per cent in income tax and a small reduction in company tax, while the land tax will be subject to a 50 per cent rebate and estate duty exemptions will be liberalized. The tax changes will cost some £14 million. Most of the severe controls on capital issues are being abolished, although the control of overseas capital will remain in order to guard against domination by foreign enterprise.

# **GERMANY**

# Scale Fees for Wirtschaftsprüfer

IT is of interest to note the following scale of fees which has recently been laid down for Wirtschaftsprüfer in Germany: DM.

(1) Compulsory audits (i.e. required by	per day
law) in addition to the ad valorem fee	
mentioned below:	
Wirtschaftsprüfer	150-200
Qualified assistants	120-150
Other assistants	100-120

(2) For other types of work, including cost investigations, where no ad valorem fee is chargeable:

Wirtschaftsprüfer		 200-300
Qualified assistants		 150-200
Other assistants	• •	 120-150

The ad valorem fee is based on balance sheet totals, as follows:

tuio, uo tomo i		
DM.50,000 or less	 	 DM.360
DM.1 million	 	 660
DM.10 million	 	 1,800
DM.100 million	 	 7,200
DM.1,000 million	 	 34,500

Note.  $-f_{i} = DM.11$ .

# Regulation of Tax Consultants

S a result of a series of legal enactments from 1919 Anwards, two classes of persons practising as tax advisers have been recognized as competent to represent clients in German tax litigation. These are the Steuerberater and the Steuerbevollmächtigten. During the occupation of Western Germany by the British, French and Americans these tax advisers strengthened their position, as the complexity of the legal situation made specialization necessary. In order

to restore the unity of Western German laws, the Steuerberatungsgesetz was passed on August 16th, 1961, which may also be noted as the first law passed in the European Common Market area which took cognizance of the provision of the Rome Treaty which calls for uniformity of legislation on tax advisers.

Under the new law, both Steuerberater and Steuerbevollmächtigten are recognized as practising liberal professions and not engaged in commercial occupations. Admission to the former profession is restricted to university graduates in law or economics who have taken a special examination in tax law and practice; there are transitional arrangements for existing practitioners. Admission as a Steuerbevollmächtigten is also regulated, but not restricted to graduates. Both can represent clients before courts of law, but it seems that only Steuerberater may appear before the Bundesfinanzhof (Federal Tax Court).

Both titles are protected and their unauthorized use is an offence. Steuerberater may practise alone or as members of a firm, and the corporate title must include the word Steuerberatungsgesellschaft. Members • 1 of these two professions may not have any business occupations, or be employed by anyone other than a Steuerberater. Partnership between these two classes of tax adviser is not allowed, unless it existed prior to November 1961.

# UNITED STATES

# **Financial Reports of Carriers**

T is reported that the Interstate Commerce Com-Imission, which regulates transportation enterprises in the United States, has authorized the publication of financial statements differing from those filed with the Commission, provided that any variance is clearly disclosed in the footnotes.

The ruling has resulted from a petition from the firm of Arthur Andersen & Co, Certified Public Accountants, filed in 1960. After the filing of the petition the I.C.C. issued a proposed rule which would have prohibited carriers from including in their annual reports to stockholders, financial statements inconsistent with the regulated accounts in the books, and interested parties were asked for

The American Institute of Certified Public Accountants said the proposed rule would deny to the investing public significant financial information which they ought reasonably to have. There seemed to be no good reason why the managements of regulated carriers should not have the same responsibility and freedom to make reports as the manage-

# ACCOUNTANT

ments of private enterprises, in conformity with generally accepted accounting principles.

Many other bodies have taken the same line and The American Trucking Associations Inc. pointed out that some of its members, under the jurisdiction of the New York Stock Exchange, would be unable to comply with both the proposed I.C.C. ruling and the prescribed regulations of the Stock Exchange.

Since 1956 a committee of the American Institute has been exploring differences of the I.C.C. regulations from generally accepted accounting principles. The only point now remaining unsettled is said to be the accounting treatment of deferred taxes.

# **Education for Accounting**

A LETTER from the Association of Certified Public Accountant Examiners to the members of faculties and departments of Business Administration in the universities appeared recently in *The Journal of Accountancy*. It stated the opinion of the C.P.A. examiners that, in view of the technical requirements of the accounting profession and the demands made on the young university graduates who enter the profession, the necessary minimum technical proficiency cannot be obtained unless at least 25 per cent of the total time in a four- or five-year programme is given to accounting and closely related subject areas. An additional 25 per cent should be devoted, in their view, to the broader functional areas of business administration.

The letter makes a strong plea for students to be given enough opportunity to acquire adequate specialization in accounting to enable the profession to meet the social and economic challenges of today.

# Reform in Tax Administration

THE Inland Revenue Commissioner, seeking to remedy weaknesses of the federal income tax system, has announced the abandonment of quantitative goals and statistical records as to case and dollar production by individual agents and groups. This is aimed at removing incentives for agents to extract the last dollar, regardless of equity. He is determined to stamp out corruption and has met with groups of lawyers and certified public accountants, stressing the need for good faith on both sides.

From a recent speech, the Commissioner seems to be studying the possibility of accepting the taxpayer's records without examination, where supported by qualified practitioners, as is effectively the case in the United Kingdom.

#### Stricter Rules for Auditors

MEMBERS of the American Institute of Certified Public Accountants have voted by mail in favour of a tighter rule on independence, which prohibits members from having any direct financial interest in companies which they serve as independent auditors, or from serving as officers or directors of such companies. The rule becomes effective from

January 1st, 1964. A leading article in the April issue of *The Journal of Accountancy* comments that public reaction to allegations of 'conflict of interest', in business as well as in Government, has become much more critical in recent years. The new rule will end the 'double standard' by which the Securities and Exchange Commission requirements as to independence were more restrictive than those of the Institute.

Members also voted for the outright banning of competitive bidding. The previous rule precluded it only in States that prohibited it.

# OVERSEAS TAX DEVELOPMENTS

THE following notes have been made available by the Inland Revenue Library (Foreign Section).

# Argentina

It is understood that the rate of income tax charged on resident companies will be increased from 33 per cent to 38.36 per cent, that a capital levy at the rate-of 2 per cent is to be introduced, and that the excess profits tax will be replaced by a new emergency tax on incomes exceeding one million pesos.

# Italy

The following rates apply as from January 1st, 1962:

Movable Wealth Tax		F	Per cent
Category A	.,		26
Category B			
Up to 4,000,000 li	re	••	· 18
4,000,000- 10,000,000	,,		20
10,000,000- 50,000,000	,,		22
	,,		23
Over 100,000,000	,,		24
Category C1 and C2			8

# COMPLEMENTARY TAX

Taxable income			ne
) Rate		(examples)	Rate
per cent	t	Lire	per cent
. 2	<u> </u>	30,000,000	19:26
. 2.5	Si Si	40,000,000	21.69
. 3.17	J8	50,000,000	
4.12	[ 5	100,000,000	31.85
. 4.85	Ĉ.	200,000,000	. 43.03
. 6	) હ	300,000,000	. 51.55
. 11.93		400,000,000	58.71
. 16.27		500,000,000	65
	Rate per cents 2 2:5 3:17 4:12 4:85	Rate per cent  2 25 3°17 4°12 4°85 6 11°93	Rate   (examples)   Lire

Exporters' allowance: For years of assessment ending June 30th, 1963, et seq. it is proposed to grant an allowance, in addition to the normal deductions from income, to exporters increasing their export business. Basically, if an exporter increases his export turnover for any year compared with the previous year, he may claim a deduction of a percentage of his market development expenditure, viz.:

Percentage increase ,	Percentage
of export turnover	deduction
Per cent	Per cent
10 (or new exporter)	25
10-25	371
Over 25	50

# MEMBERSHIP OF ACCOUNTANCY BODIES

# As at January 1st

•		1962			1961			1950		1940	STUDE	1
•	Total member- ship	In practice	Not in practice <sup>1</sup>	Total member- ship	In practice	Not in practice <sup>1</sup>	Total member- ship	In practice	Not in practice <sup>1</sup>	Total member- ship	Jan. Jan. Jan. to to to Dec. Dec. Dec. 1961 1960 1949	Dec. 1939.
The Institute of Chartered Accountants of Scotland	7,075	1,516	5,559	6,823	1,510	5,313	4,924			4,477	Indentures Registered 358 273 335	ered 190
The Institute of Chartered Accountants in England and Wales	35,228	10,4763	24,752 <sup>6</sup>	33,867	10,1834	23,684	14,632	6,183	8,449	13,473	New Articled Clerks 3,240 2,992 1,305	nks 663
The Institute of Chartered Accountants in Ireland	1,713	493	1,220	1,653	481	1,172	724	258	466	433	New Articled Clerks 217 216 72	rks 41
The Society of Incorporated Accountants (now in voluntary liquidation) <sup>2</sup>		,	-				8,496	3,253	5,243	7,754	New Articled Clerks and Bye-law Candidates  - 1,363 58	es and ttes 586
The Association of Certified and Corporate Accountants	11,006			718,01			7,664			6,092	New Registrations 2,196 1,873 1,710 1,635	ns 1,635
The Institute of Municipal Treasurers and Accountants	3,435			3,300			1,805			1,242	Admitted after passing or being exempted from the Intermediate Examination 286 264 285 10	ing or m.the nation
The Institute of Cost and Works Accountants	7,386			6,876		,	2,710			1,233	New Registrations 4,173 3,442 1,793	ms 1 436

<sup>1</sup> Includes members not in practice who are employed by firms of accountants.

<sup>2</sup> The Society entered into voluntary liquidation under the Schemes of Integration with the Chartered Institutes on November 2nd, 1957. Its total membership at that date was 11,530.

<sup>3</sup> The United Kingdom only.

4 England and Wales only.

<sup>6</sup> Includes 4,088 members not in the United Kingdom whether or not in practice.

6 Includes 4,192 members not in England and Wales whether or not in practice.

# Weekly Notes

# SCOTTISH INSTITUTE'S EXAMINATIONS

THERE were 323 candidates for Part V of the examinations of The Institute of Chartered Accountants of Scotland held last May and 147

(45.5 per cent) were successful.

The Institute's Gold Medal for the candidate whose performance over Parts IV and V was the most meritorious was awarded to Mr Harry Stephen, of Aberdeen, who also received a distinction in respect of his performance in both these parts and in addition won the Institute's Prize for the most meritorious performance in Part V alone. Mr Martin Gardiner Adamson, of Edinburgh, also received a distinction for meritorious performance in Parts IV and V and was awarded the John Munn Ross Prize in respect of Paper I of Part V. The J. C. Burleigh Prize for the successful London candidate whose performance in Part V was the most, and sufficiently, meritorious was won by Mr David Jeremy Horton.

A full list of the successful candidates appears

elsewhere in this issue.

# LANGUAGES IN INDUSTRY

BOOKLET has been published by the AFederation of British Industries called Foreign Languages in Industry (10s net). It points out that the fluent use of foreign languages is one of the outstanding advantages which foreign competitors enjoy. In the future, British industry will need more linguists at all levels and for the time being it recommends that companies should make better use of the linguistic capabilities of their employees than they do. The authors think that this will involve a revision of remuneration which fits the linguistic qualifications of those who have the job of drafting letters and preparing trade literature, and go so far as to recommend a national institute of languages to set higher standards, and stimulation of teaching of foreign languages in primary schools.

The booklet is timely. There is little doubt that the habit of preparing sales literature for export markets in the local language has not recommended itself so far to a large number of British companies. The nineteenth century attitude that the foreigner must either learn English or do without British products dies hard. The fact that this country may shortly join the European Economic Community adds force to this insistence of selling in the language of the market to which the goods are directed.

There is no doubt that British industry has a good deal to learn yet about the damage which a well mounted export sales drive can suffer from carelessly drafted communications in a foreign language or a complete disregard of the fact that those in the market being approached have a language of their own.

# GROWTH IN GOVERNMENT POLICY

IT is now generally known that the National Economic Development Council is undertaking a study of what is involved in reaching a growth target for the economy of 4 per cent a year over 1961 to 1966. The latest issue of *The Bulletin for Industry* deals with the N.E.D.C.s approach to this problem.

One way it is to be tackled is by a discussion with a cross-section of public and private industry of their forward plans for output, sales, investment and employment including the implications of these plans on a 4 per cent rate of growth. The other method is to assess over a wide field the conditions likely to be favourable to a faster rate of growth than has been

achieved in the recent past.

The Bulletin goes on to say that it is quite clear already that the acceleration of the rate of growth cannot be accomplished merely by changes in Government economic measures or by changes in industrial attitudes. Whatever the theoretical possibilities may be for a quicker rate of growth, in the event there will have to be not only a removal of obstacles but positive changes which may be both hard and painful.

Meanwhile, certain Government policies are being examined for their relevance to these problems of growth. These include promotion of exports, approach to income policy, the maintenance of an appropriate pressure of demand, and the control and financing of public expenditure. This last alone is now equal to two-fifths of all domestic expansion and it is therefore vital to establish a sound relationship between the growth of public spending and the growth of total output. Undue emphasis on public expenditure could switch resources which might be better employed in private expenditure and vice versa.

# FIRST QUARTER'S FISCAL RETURN

AN overall deficit in the Exchequer returns of £280 million is recorded for the first quarter of the current fiscal year. This compares with a figure of £268 million for the corresponding quarter of 1961-62. The deficit on ordinary account was £214 million, a sharp increase on the figure for the same time last year, but the big increase was offset to some extent by a drop in the deficit below-the-line.

The higher deficit on ordinary account in the quarter just ended was due mainly to higher expenditure on the supply services which went up by £83 million to £1,305 million. On the other hand, total receipts were £15 million, lower than a year ago at £1,302 million, mainly as a result of a fall in miscel-

laneous receipts.

The reduced deficit below-the-line has been brought about by loan repayments by the nationalized industries and other public bodies which were £22 million higher than a year ago, while the National Coal Board repaid an extra £14 million. There were also smaller new loans to public bodies.

# TAX ON CAPITAL PROFITS DIVIDEND

THE Judicial Committee of the Privy Council has L upheld a decision of the Federal Supreme Court of the West Indies that a capital profits dividend paid by a company in British Guiana is chargeable to British Guiana tax in the hands of the recipient, according to The Guardian of June 20th (Bicher Ltd v. The Commissioners of Income Tax (British Guiana)). The appellant was domiciled in the United Kingdom but carried on business in British Guiana, where income tax is imposed on, inter alia, income of any person accruing in or derived from the colony or elsewhere, in respect of dividends, interest, or discount. It owned 600 shares in a British Guiana company which sold a capital asset at a profit and distributed two dollars a share in respect of it. The appellant company appealed against an assessment on the 1,200 dollars to the Commissioners, then to Mr Justice Date, and then to the Full Court of the Supreme Court, who allowed the appeal. However, this Court was reversed by the Federal Supreme Court of the West Indies which, like the Privy Council, held that the dividend was taxable. The House of Lords decision in C.I.R. v. Reid's Trustees (28 A.T.C. 65) was applied.

# FINANCIAL CHANGES IN PILKINGTON

IMPORTANT changes in the financing of independent television are recommended by the 'Report of the Committee on Broadcasting, 1960'1 under the chairmanship of Sir Harry Pilkington. The committee suggests that the Independent Television Authority should plan the programming and sell advertising time. Programme companies should produce and sell to the Authority programme items for inclusion in the Authority's planned programme. The Authority should also make provision for reserves and should then pay any surplus revenue to the Exchequer.

The committee think that the main ideas put forward for reducing the profits made by the companies (among these ideas were some submitted as evidence) would leave the constitution and organization of independent television essentially unchanged. They have considered many alternatives and some of these have been turned down on grounds of taxation principle and practice. Some would require so complicated a system of controls as to probably make them unworkable.

The committee are satisfied that the Authority has conducted its internal affairs efficiently and have applied the necessary financial controls to achieve this. The Authority has said that it would like to have powers to require the companies to provide detailed information about their costs. If the present constitution and organization of independent television are preserved, the Pilkington Committee thinks that this wish should be accepted. If, however, the major recommendations outlined above for the future

financial operation of the Authority are accepted, the relationship between the Authority and the companies would be entirely commercial and it would not be necessary for the Authority to call for details on costs.

As regards the accumulation of financial reserves, the committee think that the Authority's first duty should be to give the best possible service, and this requires financial reserves up to a certain level. It emphasizes, however, that the Authority must not become a body whose primary aim is to raise revenue for the Exchequer. In deciding a reasonable upper limit to reserves, regard would have to be paid to the fact that the Authority's revenue is obtained from commercial sources and that these would not be so secure as the licence income of the B.B.C. They would be liable to fluctuate with the state of trade and the advertising expenditure of the big advertisers.

#### THE T.U.C.

THE booklet What the T.U.C. is Doing published by the T.U.C. Publications Department<sup>1</sup> outlines the main activities of the General Council of the T.U.C. since September 1961, and, in effect, is a preview of the more detailed account which will be presented when the Congress meets again next September. Of the five chapters into which the booklet is divided two, namely, 'Welfare of the workers' and 'Questions in industry' are concerned with specific trade union problems, while the remainder deal with 'The rising generation', 'The international scene', and 'Britain's economic future'.

The attitude of the T.U.C. to the country's economic future and particularly to N.E.D.C. and the pay pause has, of course, been widely publicized as have their views on the international situation and most of the outstanding problems relating to conditions of employment. The work of the T.U.C. to secure a widening of the range and improvement in the quality of education and training in Britain, as well as to provide higher educational facilities for trade unionists themselves, is probably less widely known. In their evidence to the Robbins Committee the T.U.C. have been emphatic that there is far too little higher education, whether provided in universities, in advanced courses in technical colleges, or in teacher training colleges.

In the field of technical skills the joint efforts of the T.U.C., the British Employers' Confederation and the nationalized industries through the Industrial Training Council have resulted in the number of boys obtaining apprenticeships growing faster over the period 1959 to 1961 than the number of boys starting work. The T.U.C. has also been active in promoting the education of young office workers and it is hoped that the Ministry of Education will introduce a new national education award for young office workers whose needs are not met by the present Ordinary National Certificate in Business Studies.

<sup>1</sup>T.U.C. Publications WC1, price 6d.

<sup>1</sup>T.U.C. Publications Dept, 23-28 Gt Russell St, London WC1, price 6d.

# Tales of a Tax Man

by HAROLD E. COX

Our 'Industrious Accountant' is taking a holiday until August 4th; meanwhile Mr Cox continues from last July with anecdotes from his former days as an Inspector of Taxes.

# FORMS AND FIGURES

ALAS! no - this is not to be a dissertation on those intimate mysteries intriguingly described as foundation garments. But these two words do have secondary (or maybe, primary) meanings which have, from time to time, brought me some amusement.

Take first, as a simple example, a letter from an employer to the Inspector of Taxes which began: 'My new typist informs me that there is some adjustment to be made in her figure.'

A more elaborate effort, but equally as authentic, sounds almost incredible. A bewildered lady wrote:

'I would draw your attention to my form which does not seem to be quite right. I spent some time last evening trying to straighten it out, but this morning it looked as crooked as ever. If I could call at your office could you do anything for me as I think my figure is all wrong and could be altered at an interview.'

Another innocent lady, in a letter enclosed with her tax return, explained:

'I was unemployed for several weeks last year as you can see by my form.'

Those fascinating words 'forms' and 'figures' bring to mind a letter from a cabaret dancer in which she detailed the various expenses she wished to claim:

'I have provided one of my own costumes,' she wrote, 'a black leotard £5 15s, 9,000 sequins and beads £5, one pair nylon tights £6 10s, one pair black shoes £4 15s. I hope this covers all that is required.'

In my brash young days as an assistant inspector in a London district, I interviewed a teacher of dancing to discuss with her a lengthy list of expenses she had submitted with her appeal. I was extremely curious about the numerous entries for stockings priced at amounts which (so my typist informed me) were exorbitant.

She was pert and pretty; I was titillated and tentative. I dealt with the minor items first and then mentioned the stockings. She calmly explained how they were made of a special material, how they were of extra length, and why her work took heavy toll of them. I must have looked stupid (or dazed) because she got up, placed her foot on the chair, displayed the stocking, slowly raising her skirt to show me the extra length. 'And now, are you quite satisfied?' she

asked. 'Well - hardly', I replied slowly, 'how can I be; you've only produced half the evidence'.

Oscar Wilde provides the apt quotation at this moment: "The tragedy of old age is not that one is old, but that one is young."

But back to forms and figures. An accountant wrote explaining the delay in submitting the accounts for one of his clients, a lady fashion expert: 'I have spoken to my client who has got rather much behind in her work. She is now embarking on a month's tour showing her new lines.'

Tax forms are not models of clarity or of conciseness, and it is little wonder they bedevil the ordinary person quite frequently. An exasperated ex-Marine returned his tax form to his inspector remarking: 'I can't understand this form. Please appreciate I was a serviceman pure and simple.' While an irritated lady wrote: 'When you send me another tax form to fill in, please send me one that a woman can answer and not one with men's questions.'

This note enclosed with an annual return possibly sums up the problem: 'I have made out the enclosed form to the best of my ambiguity.' But he must have been a bleary-eyed optimist who wrote: 'So far I have not had an income tax form to fill up this year. Does this mean that you have finished with me?'

A care-free optimist lost his income tax form and so he called at the local tax office for another. He apologized to the young lady at the counter for his carelessness and asked her to show him what forms she had, so that he could pick one out 'like he had before'. A similarly simple soul also called at his tax office and asked for a repayment claim form. The counter clerk inquired: 'What kind of a repayment claim do you wish to make?' The unexpected reply was: 'I don't rightly know. What kind have you got?'

Tax returns have frequently to be sent back because of some omission or ambiguity. Often it is impossible to decide whether the form-filler is Mr, Mrs or Miss. One reply to an inquiry about personal status was exceptionally odd: 'I am not married. I am a spinster. I am called 'Mrs' at work by the youngsters as my being eighteen stone it's more respectful.'

The inspector had sent a reminder for the tax form addressed to "The Present Occupier'. A delightful reply was the result:

Someone wrote: 'I look upon anecdotes as debts due to the public which every man, when he has that kind of cash by him, ought to pay.' This is another of my instalment payments.

# Finance and Commerce

# **Daily Mirror Newspapers**

THE first accounts of The Daily Mirror Newspapers since the Odhams Press take-over provide the subject of this week's reprint. The result is seen in the consolidated balance sheet total of £102,386,840 which is rather more than double the previous figure. Truly a colossus of printing and publishing!

The last three pages of the report list the newspapers, periodicals, trade and technical journals, directories and year-books, and the printing, bookbinding and engraving companies in such number and covering such wide interests that one could almost say it has to be seen to be believed. No less than ten have 'woman' in the title; but in numbers, at least, the trade and technical journals dominate the list. And then, of course, there is the Daily Mirror and the Sunday Pictorial, the Daily Herald and The People and the other newspaper interests that extend to West Africa and the West Indies.

There are the problem publications. The Odhams Press's *Daily Herald* 'continued to trade at a substantial loss' but this was more than offset by the profit on its companion paper, *The People*, with its second largest net sale in the Sunday newspaper field. The women's weekly magazine field has been 'rationalized'. Four of them have become two by 'successful mergers'.

# **Earnings**

Profits in total are affected in their comparison by the events of the year. Group net profit attributable to the company is £4,940,317, an increase of £2,379,126. The controlling interest in Odhams was acquired at the beginning of the financial year and the accounts include a full twelve months from that source. The Imperial Paper Mills Ltd was sold to Albert E. Reed & Co Ltd on March 31st, 1961, in exchange for shares, so that only one month of Imperial trading profit comes in plus the Reed interim dividend for its year to March 31st, 1962.

To relate these events to the figures of the previous year, the directors state in their report, a truer comparison is an increase in trading profit, after depreciation of £2,467,000 from £6,645,000 to £9,112,000. Special mention is made of the increase to 3d in the price of the Daily Mirror newspaper on March 6th, 1961, so that 'profit has risen materially while the fall in its net sale has been of the order of

only 2 per cent'. Higher dividend income was received from the holdings in Sunday Pictorial Newspapers Ltd, Associated Television Ltd and Reveille Newspapers Ltd.

The reprint of the *Daily Mirror* accounts and the notes on them is complete and there is more than enough general and instructional interest in them to keep readers well occupied.

# Marks & Spencer

NE interesting passage in the speech of Lord Marks, the chairman of Marks & Spencer Ltd, at the annual meeting, referred to simplification of management and administration methods for which the company has made a name. In this subject, in which all accountants in practice and administration have a deep interest, Marks & Spencer has now had some five years' experience in cutting paper-work and simplifying methods.

Parkinson, of course, was right and as Lord Marks said at the meeting, 'there is a constant tendency in business as in Government for costs of administration to rise, for procedures to become complicated and for paper-work to become burdensome and wasteful. Unless it can be checked, it can become a heavy burden on business'.

'We', said Lord Marks, 'subject all our procedures to constant scrutiny in order to eliminate useless paper-work, with results that have again contributed substantially to the year's profits.'

Some of the things done by Marks & Spencer are positively alarming – if seen from the wrong angle. The keeping of detailed stock records at each store – some 250 of them – with stock movements in and out has been swept away. That, in itself, was a tremendous decision, but experience has proved its worth.

# Simplification Exhibition

Store assistants no longer clock in and out which has been found to be not only good for their 'ego' but a great saving in cards, statistics, etc., at head office. If a branch manager wants some simple requisite for his office that can be obtained locally, he buys locally instead of indenting on a central store. In sum total, it adds up to tremendous figures. Lord Marks reckons to have cut out some twenty-six million pieces of paper, cards, forms, etc., previously handled – and the queries that are inseparable from 'paper-work'. Internal audit staff has been cut by a third; other work has been found for them. The number of employees has been substantially reduced despite increased business done.

A point of particular interest in Lord Marks' speech for those who have efficiency at heart is the company's Simplification Exhibition at its head office where some of the Marks & Spencer simplification methods are illustrated. 'It continues to attract a regular stream of visitors who have been troubled by the same problem and hope they may learn

# ACCOUNTANT

something from our experience.' During the year, over 1,000 business men and administrators from Government departments and local authorities visited the exhibition, bringing the total since it was opened six years ago to over 6,000.

For readers interested, the company's address is in Baker Street, London W1.

# **New Capital Issues**

CTATISTICS compiled by the Midland Bank Show that the amount of 'new money' raised in the United Kingdom by the issue of marketable securities in June was £144.1 million. This brings the total for the first six months of 1962 to £349.4 million which compares with £339.8 million in the first half of 1961 and £271.8 million in the first half of 1960.

Among the issues included in the total for June were those for General Accident and Life Assurance (£13.0 million), Lloyds Bank (£12.2 million), London County Council (£28.2 million net), National Provincial Bank (£10.3 million) and Thorn Electrical Industries ( $f,g \cdot g$  million).

# Stockbrokers to be allowed Overseas Offices

"HE Council of the London Stock Exchange have passed, subject to confirmation on July 23rd, a new Rule 57E and Appendix 46c which will permit brokers under certain conditions to establish branch offices overseas. A broker wishing to open a branch office, which must be situated outside the United Kingdom and the Republic of Ireland, will be required to obtain the prior consent of the Council.

#### The Daily Mirror Newspapers Limited and its Subsidiaries

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 28th FEBRUARY, 1962

1961		
3,808,782	TRADING PROFIT	10,592,605
911,832	Depreciation	1,480,872
2,896,950		9,111,733
	DIVIDENDS AND INTEREST RECEIVED	
461,440	Anglo-Canadian Pulp and Paper Mills Limited	
735,796	Trade investments	1,560,638
128,359	Quoted investments	9,673
158,556	Short term loans, etc	121,377
43,381,101		10,803,421
50,405	DEBENTURE AND LOAN INTEREST	400,977
4,330,696	PROFIT BEFORE TAXATION	10,402,444
1,369,502	TAXATION	5,006,745
2,961,194	PROFIT AFTER TAXATION	5,395,699
400,003	Amount attributable to outside shareholders	455,382
£2,561,191	NET PROFIT ATTRIBUTABLE TO THE DAILY MIRROR NEWSPAPERS LIMITED	£4,940,317
•	Applied as follows:	
	DIVIDENDS OF THE DAILY MIRROR NEWSPAPERS LIMITED (less income tax)	
39,200	Preference stock	80,306
499,289	Ordinary stock Interim of 5 per cent	956,061
998,578	Final of 10 per cent	1,912,124
	UNAPPROPRIATED PROFIT	
	transferred to revenue reserve	
661,365	The Daily Mirror Newspapers Limited	579,231
362,759	Subsidiaries	1,412,595
£2,561,191		£4,940,317

The notes appearing on pages [16 and 19] form an integral part of these accounts.

NOTES ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 28th FEBRUARY, 1962

I. CHANGES IN GROUP INTERESTS

I. CHANGES IN GROUP INTERESTS
The consolidated profit and loss account for the year ended 28th February, 1962 includes the profit for the year of the Odhams Press Group acquired on the 3rd March, 1961 and the profit for one month only of The Imperial Paper Mills Limited (the controlling interest of which was sold on the 31st March, 1961) together with the interim dividend in respect of the year ended 31st March, 1962 received on the shares issued in exchange by Albert E. Reed & Company Limited. If these changed circumstances had prevailed in the previous year the trading profit after depreciation for that year would have been £6,645,000 on the basis of including a year's profit for the Odhams Press Group to 31st December, 1960.

Other income	
Newspaper and periodical sales	43,721,000

3. PAYMENTS TO DIRECTORS

2 THEN OVER

£1.369.502

The emolume	ents of the directors of The Daily Mirror Newspape their services to the company and its subsidiaries w	ers Limited
1961		1962
£ 3,312 88,756	FeesOther emoluments	£ 1,031 114.007
12,726	Pensions in respect of former directors Payment to a former director on relinquishing	12,187
4,250	executive office	_
£109.044		£127.225

In addition fees amounting to £4,333 (1961 £3,000) have been received from associated companies.

The charge for relief of £310	ON ON THE PROFIT OF THE YEAR or taxation is based on the profit of the year and is 0,000 (1961 £359,000) in respect of investment allow	vances.
1961		1962
472,444 1,377,208	Profits tax	1,171,760 3,764,064
1,849,652 27,850	Deferred taxation(1961 amount released)	4,935,824 151,161
1,821,802 339,700	Less Double taxation relief in respect of tax borne by Canadian subsidiary	5,086,985
1,482,102 112,600	Less Provision in prior years no longer required	5,086,985 80,240

5. NET PR	OFIT ATTRIBUTABLE TO THE DAILY	MIRROR
NEWSPA 1961	APERS LIMITED	1962
£		£
	Amount dealt with in the accounts of The Daily	
2,198,432	Mirror Newspapers Limited	3,527,722

£5,006,745

The Daily Mirror Newspapers Limited

BALANCE SHEET, 28th FEBRUARY, 1962

# ACCOUNTANT

, 1962			ACCOU	JNTAN	T		1
પ	6,147,188 87,892 6,311,739 2,344,319 3,867,420	797,000	51,734,774	3,848,101		1,453,547 2,083,194 539,417	4,192,896
FIXED ASSETS	Freehold and leasehold land and buildings at cost less depreciation  Machinery, plant, etc. at cost less depreciation	Construction work in progress at cost Machinery, plant, etc	GOODWILL  at cost less amount written off	TRADE INVESTMENTS at cost less amounts written off	Unquoted - Directors	Stocks of paper, etc. at the lower of cost and realisable value  Debtors  Amounts owing from subsidiaries  Quoted investments  Market value £301,428	Tax reserve certificates
ч	6,067,179 61,143 5,904,219 2,586,631					1,926,136 13,087 299,340	636,723
3 1961	6,006,036	791,191	1,266,063	3,854,266			4,429,905
<b>u</b> <b>u</b>	35,000,000 33,024,999 19,973,819	2,438,076 6,385,876 61,822,770	890,000 437,000 1,327,000	994,736	2,446,760 1,972,327 79,508	44,263 1,912,124 6,454,982	670,599,488
SHARE CAPITAL	Authorised Issued and fully paid SHARE PREMIUM ACCOUNT	CAPITAL RESERVEREVENUE RESERVE	FUTURE TAXATION 157,000 Income tax due 1st January, 1963	PROVISION FOR PENSIONS less anticipated taxation relief		Dividends (less income tax)  Preference stock  Ordinary stock – Final dividend	CECIL H. KING   Directors
3 . 1961	20,000,000	2,417,676 5,806,645 29,843,117	157,000	021'610'1	3,036,850 114,759 165,976	19,600 4,335,763	235,665,050

The notes appearing on pages [16 and 19] form an integral part of these accounts

# ACCOUNTANT

The Daily Mirror Newspapers Limited and its Subsidiaries

CONSOLIDATED BALANCE SHEET, 28th FEBRUARY, 1962

8,654,823 12,380,926 21,035,749 619,920 20,415,829	10,065,810 96,724 1,197,692 1,294,416 34,306,792	22,5	50,000	12,758,209 8,543,237 17,009,060 151,912	2,300,901 1,249,801 2,505,633 1,760,534 £102,386,840
FIXED ASSETS  Freehold and leasehold land and buildings at cost.  at valuations in 1959 and 1961  less depreciation  Machinery, plant, etc. at cost or net book amount in 1948	fess depreciation  Construction work in progress at cost Freehold and leasehold land and buildings.  Machinery, plant, etc.	including that arising on consolidation less amounts written off	TRADE INVESTMENTS 12 19,977,391 Quoted – Market value 27,315,575 783,000 valuation 2,787,000 £20,760,391 SUBSIDIANES SOLD DURING THIS YEAR.	. 8 11	Tax reserve certificates
f1 ,522,861	247,306		4,335,797	4,083,636	319,975 1,697,048 883,510 1,624,772
. 1961 	7,224,937	1,252,785		11,761,198	16,440,822
33,024,999 19,973,819 3,277,494 7,900,032 64,176,344	2,891,288 856,306 3,747,594	7,089,318 1,748,978 8,838,296	7,145,455	579,127 11,543,713 702,621 45,577	1,956,387 141,623 14,969,048 £102,386,840
SHARE CAPITAL OF THE DAILY MIRROR NEWSPAPERS LIMITED	FUTURE TAXATION 780,458 Income tax due 1st January, 1963		DEBENTURE AND LOAN STOCKS PROVISIONS FOR PENSIONS less anticipated taxation relief	Bank overdraft  Creditors  Taxation less recoverable  Debenture Interest accrued (less income tax)  Dividends (less income tax)  Stockholders of The Dally Mirror Newspapers	Limited Outside shareholders in subsidiarles
1961 £ 220 7.6 4.5 6.4 6.4 6.5 6.5 6.5 6.5 6.5 6.5 6.5 6.5 6.5 6.5	ı	1,803,469		5,077,463 354,890 10,987 1,018,178	125,315
17,103,320 4,515,476 2,931,545 7,569,664 32,120,005	1,092,958	7,182,869	1,322,682 1,218,594	.· •	6,586,833

The notes appearing on pages [16 and 19] form an integral part of these accounts

# THE ACCOUNTANT

#### .The Daily Mirror Newspapers Limited and its Subsidiaries

NOTES ON THE BALANCE SHEETS 28th FEBRUARY, 1962

#### I, SHARE CAPITAL OF THE DAILY MIRROR NEWSPAPERS LIMITED

196	ı		1962		
Authorised	Issued and fully paid	•	Authorised	issued and fully paid	
£	£		£	£	
800,000	800,000	8% cumulative pre- ference stock in £1 units	1,806,667	1,806,667	
4,001,660	4,001,660	Ordinary stock in 5s. units	31,218,332	31,218,332	
12,301,660	12,301,660	'A' ordinary stock in 5s. units		-	
2,896,680		Unclassified shares of 5s. each	1,975,001	_	
£20,000,000	£17,103,320		£35,000,000	£33,024,999	

On the 3rd March, 1961, the authorised capital was increased to £35,000,000. On the 3rd Plaren, 1961, the authorised capital was increased to £35,000,000, the 'A' ordinary stock converted into ordinary stock and 800,331 ordinary shares of 5s. each issued as compensation to ordinary stockholders. The acquisition of the issued capital of Odhams Press Limited required the issue of a further 58,859,720 ordinary shares of 5s. each, fully paid, and 1,006,667 8% preference shares of £1 each, fully paid, both of which were converted into stock.

In establishing the share premium attaching to the shares issued to acquire Odhams Press Limited regard was had to the market quotation for the 5s. ordinary stock units ruling on the day that the offer became unconditional. The figures shown throughout these accounts for 1961 are the corresponding figures for that year and do not take the enlargement of the Group into

#### 3. DEBENTURE AND LOAN STOCKS

1961 £	Description of stock	Latest date for redemption	Rate of interest %	1962 £
694,938	first mortgage	1975	4	659,054
-	first mortgage	1975	3}	810,854
627,744	first mortgage	1976	4	596,227
-	first mortgage	1977	31	176,300
-	first mortgage	1978	5	594,733
_	unsecured loan	1984	5	1,040,966
·	unsecured loan	1986	6	3,267,321
£1,322,682				£7,145,455

#### 4. PROVISION FOR PENSIONS

The Group pension provision which formerly only included the liability for employees eligible for membership of pension schemes has now been enlarged to cover the past service of other employees and persons already in receipt of pensions by the transfer of £994,000 by subsidiary companies from their revenue reserves. The provision is the estimated amount required, after deducting anticipated future taxation relief including relief due on lump sum payments already made, and relates to all companies within the Group including newly acquired subsidiaries.

# 5. SUBSIDIARIES

#### NOT CONSOLIDATED

The consolidated accounts do not include the accounts of The Publishers and General Insurance Company Limited as, in the opinion of the directors, the business of the Group and that of the subsidiary are so different that they cannot reasonably be treated as a single undertaking. So far as it concerns members of The Daily Mirror Newspapers Limited the subsidiary has made neither profit nor loss on revenue account since date of acquisition.

# SOLD DURING THIS YEAR

The Group's holding of ordinary and preference shares in The Imperial Paper Mills Limited and its Canadian subsidiary, Gulf Pulp and Paper Company, were exchanged on the 1st April, 1961 for shares in Albert E. Reed & Company Limited. These shares are included in trade Investments at the amount attributed to the interests sold as shown in the consolidated balance sheet at 28th February, 1961. Albert E. Reed & Company Limited has an option to acquire, at any time before June 1966, 120,000 deferred shares of £1 each in The Imperial Paper Mills Limited which have been retained and to which to book walle has been ascribed. to which no book value has been ascribed.

# SOLD SINCE END OF YEAR

The Group's interest in the Empire Printing Ink Company Limited, was acquired by Ault & Wiborg Limited on the 1st March, 1962 in exchange for cash and shares having a value of about £400,000, which is in excess of the amount at which that interest is Included In the consolidated balance sheet.

# 6. CONTRACTS FOR CAPITAL EXPENDITURE

The outstanding commitments on contracts for capital expenditure not provided for in the accounts amounted to approximately:

1961		1962
£	·	£
1,215,000	The Daily Mirror Newspapers Limited	676,000
1,022,000	Subsidiaries	566,000
£2,237,000		£1,242,000
	<u> </u>	***************************************

	2. MOVEMENT IN RESERVES	The Daily Mirror Newspapers Limited	The Group
	SHARE PREMIUM	£	£
	At 28th February, 1961	4,515,476	4,515,476
	Premium on issue of 58,859,720 ordinary stock units of 5s. each	15,695,925	15,695,925
		20,211,401	20,211,401
	Less Amount applied in capitalisation issue of 800,331 ordinary stock units of 5s. each	200,082	200,082
	Stamp duty on increase of authorised capital	37,500	37,500
		£19,973,819	£19,973,819
	CAPITAL RESERVE		
	At 28th February, 1961	2,417,676	2,931,545
	Surplus arising on revaluation of land and buildings by a subsidiary		372,018
	Surplus on sales	4,459	14,772
	Property and other assets	15,941	56,514
	Transfer from revenue reserve	10,51,	397,458
		2,438,076	3,772,307
	Less Special depreciation on plant and machinery	2,730,076	
	no longer in use		494,813
		£2,438,076	£3,277,494
	REVENUE RESERVE		
	At 28th February, 1961	5,806,645	7,569,664
	Unappropriated profit of the year	579,231	1,991,826
,		6,385,876	9,561,490
	Less Transfer to capital reserve of amount attri- butable to subsidiary sold during this year		397,458
	Additions (less taxation) to provisions at beginning of year on debtors for instalment		270,000
	debts		994,000
	ior pensions		
	_	£6,385,876	£7,900,032

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Such offices must be wholly under the control of the London firm and must be used solely for the conduct of Stock Exchange business. Contract notes relating to transactions done by the branch office will have to be rendered in London. It will be necessary for the branch office to comply with Stock Exchange Rules (including those restricting advertising) and with the laws of the country in which the branch office is situated.

# Barclays Bank

A NEW local head office of Barclays Bank was set up last Monday. Controlling forty-five branches, most of them in Surrey, it will operate at first from Dorking, moving in a few months to its permanent centre at Guildford. The branches have formerly been part of the London, Brighton, Reading and Windsor districts.

The new local head office is the latest development in the Barclays system of decentralization, under which all the branches of the bank are administered in districts; there are now eight London district controls and twenty-nine local head offices. The system originated in the fact that Barclays was first formed as an amalgamation of private bankers, who wished to preserve the personal relationship between banker and customer. Later, as joint-stock banks as well as further private banks were absorbed, the local head office plan was extended to include them also, and Barclays finds it operating as satisfactorily now as when it was first devised.

# CITY NOTES

THE City is on the eve of Festival Week but there is singularly little festivity in the stock-market. After a largely technical rally at the end of last week the market has eased back into a mood of uncertainty.

Mid-year reviews by leading stockbroking firms hardly suggest that brokers are advising their clients that the fall in equity prices of the past few months has led to levels at which buying can be confidently considered.

One firm admits 'we cannot yet say with any confidence that a safe buying level has been reached and some of the still relatively low yielding shares could be particularly vulnerable in any renewed setback, having regard to the drastic readjustment of similar stocks which has already taken place both in America and on the Continent'.

'In a month's time', another firm suggests, 'the market could possibly look in a healthier state than it is now, although for the time being any tentative rally should not be trusted too far.'

Another suggests that 'for the long-term investor there are and will be bargains in the United Kingdom ordinary share market', but having said that hastens to add, 'but we would ourselves, in present circumstances, prefer to miss the bottom rather than plunge in too eagerly and too early'.

The broad conclusion is that the worst of the fall may be over but that there is as yet no reliably firm basis on which recovery can be built.

# RATES AND PRICES

Closing prices, Wednesday, July 4th, 1962

Tax Reserve Certificates: interest rate (28.4.62) 21%

Bank Rate			Money Rates					
	Oct. 27, 1960 Dec. 8, 1960 July 26, 1961 Oct. 5, 1961	5½% 5% 6½%	Nov. 2, 1961 Mar. 8, 1962 Mar. 22, 1962 April 26, 1962	6 % 5 ½ % 4 ½ %	Day to day 7 days Fine Trade Bills 3 months 4 months 6 months	2\frac{1}{2} - 3\frac{3}{4} \\ 2\frac{1}{4} - 3\frac{3}{4} \\ 2\frac{1}{4} - 3\frac{3}{4} \\ 5\frac{1}{4} - 6 \\ 5\frac{1}{4}	Bank Bills 2 months 3 months 4 months 6 months	4 18 - 4 18 % 4 18 - 4 18 % 4 18 - 4 18 %
Treasury Bills				Foreign Exchanges				
	April 27 £4 May 4 £4 May 11 £3 May 18 £3 May 25 £3	15 9.72d% 195 8.71d% 175 1.04d%	June 15 £3 June 22 £3	3 15s 0·28d% 3 14s 4·01d% 3 16s 11·8d% 3 18s 5·03d%	New York Montreal Amsterdam Brussels Copenhagen	2·80 % 18 2·80 % 18 2·80 % 18 18 18 18 18 18 18 18 18 18 18 18 18	Frankfurt Milan Oslo Paris Zürich	11·19 <del>1</del> 1742 20·04 13·75 <del>1</del> 12·11 <u>1</u>
	Gilt-adasad							

As well as the usual prices quoted at the close of business on press day, we also give below the quarter-end prices - a practice which is followed at the close of each quarter.

Consols 4%	June 29th, 1962 62±xd 40 ts 92± 88± 56	July 4th, 1962 62 fr xd 40 fr 92 fr 92 fr 88 fr 56 fr	Funding 3% 59-69 Savings 3% 65-76 Savings 2½% 64-67 Treasury 5½% 2008-12 Treasury 5% 86-89	•••	June 29th, 1962 85½ 82 % 72 % 88 % 90½ 842	July 4th, 1962 85 <del>ll</del> 82 <del>ll</del> 73 88 32 904 842
Conversion 5% 1971 Conversion 3½% 1969	921 881 56	92 <del>8</del> 88 <del>1</del> 56 <u>18</u>	Savings 2½% 64–67	••	88 <del>18</del> 90 <del>1</del> 84 <del>1</del>	88 <del>72</del> 904 84 <u>1</u>
Funding 5½% 82-84 Funding 4% 60-90 Funding 3½% 99-04	100½ 91 ¼ 88¾ 60 ½ xd 83 ½ xd	100 <del> {</del> 91 <del>   </del> 88 <del>   </del> 60 <del>4</del> 86 <del> </del>	Treasury 3½% 77-80 Treasury 3½% 79-81 Treasury 2½% Victory 4% War Loan 3½%		70 <del>18</del> 71 <del>1</del> 40 <del>18</del> 96 2 x d	71 \$ 71 \$ 40 <del>18</del> 96 <del>1</del> 55 <del>8</del>

# Current Law

# **Duties of Attorney-administrator**

THE applicant in In the Estate of Weiss ([1962] 1 All E.R. 308) was a beneficiary who sought an order assigning to her the administration bond given for the due administration of the deceased's estate by B., who had been appointed by W., the administrator, to obtain letters of administration in England in respect of the deceased's estate. W. had been appointed by the Czechoslovakian court. B. met or provided for all claims and expenses incurred in England and at W.'s request handed over to K., who was resident in Switzerland, the net proceeds of the administration.

Scarman, J., took the view that an attorneyadministrator would ordinarily be justified in paying over the balance to his foreign principal after paying the English debts, other debts of which he had notice, and the expenses of his administration; distribution to the beneficiaries, though it might in special circumstances become the duty of the attorneyadministrator, was better left in most cases to the principal administrator in the country of the deceased's domicil. His lordship found no reason in the case before him why the English attorney-administrator should not hand over his balance to the Czechoslovakian administrator. Nor, in the instant case, did his lordship see any objection to the transfer by B., at W.'s request, to K.; though he said that if an attorney-administrator had notice of any limitation on the power of his principal to instruct him to deliver the balance of the estate to a third person, or had any reason to believe that compliance with the instruction would be to deprive creditors or beneficiaries of their respective entitlements or otherwise cause loss to the estate, he might be failing in his duty if he did not seek the directions of the Court, which might decide to keep the administration under its control. As the applicant failed to establish a prima facie case of failure by B. to administer according to law the estate coming into his hands, the application failed.

# Claim against Petitioning Creditor

THE petitioner in Re Douglas (Griggs) Engineering Ltd ([1962] 1 All E.R. 498) obtained judgment against the company in the sum of £380 with costs and sought the winding-up of the company on the ground that it was insolvent and unable to pay its debts. The company resistant debts. The company resisted the petition on the ground that in 1961 an action was brought against it in which the plaintiff recovered judgment for £3,167 os 9d and third-party proceedings by the company against the petitioning creditor were pending, in which proceedings the company claimed £2,559 (part of the sum of £3,167 os 8d) a sum much larger than the judgment debt on which the petition was founded. In a letter from the company's solicitors to the petitioner's solicitors the admission was made that there were no assets on which execution could be levied, either at the solicitors' own office or at the

company's place of business.

Pennycuick, J., ordered the company to be wound up, holding, first, that the petitioner's prima facie right to an order had not been displaced merely by showing that the company had a disputed claim against the petitioner in other proceedings; and, secondly, that, having regard to the letter referred to, the company should be deemed to be unable to pay its debts within section 223 (b) of the Companies Act, 1948.

# Application by Trustees to Vary Trusts

'N Re Druce's Settlement Trusts ([1962] 1 All E.R. .563) an application was made to the Court by trustees under section 1 of the Variation of Trusts Act, 1958, for approval of the variation of a settlement so as to convert it into a discretionary settlement with certain powers, the trustees being given non-binding directions as to how to exercise their discretion over income.

Russell, J. (as he then was), having observed that any arrangement was capable of being regarded as beneficial under the Act if it could, on balancing probabilities, be regarded as a good bargain, and that it was not necessarily deprived of that quality by the fact that, in improbable circumstances, no benefit, or even some loss, was possible, found that the arrangement proposed would be for the benefit of all potential beneficiaries who were not parties to the application (and whose interests were therefore the special concern of the Court), and that it was a proper case for the exercise of the Court's discretion under the Act. His lordship said that he was at one time exercised in his mind as to the propriety of conferring discretionary powers which were in fact intended to be exercised in particular ways and with indications short of effective command that they should be so exercised; but, bearing in mind that the jurisdiction in effect enabled the Court to contract on behalf of certain beneficiaries, or possible beneficiaries, he concluded that it was open to him to agree to that which the beneficiaries, if sui juris and ascertained, might have agreed for themselves.

His lordship observed that, in general, beneficiaries, and not trustees, should be the applicants under the Act, and that trustees should not be the applicants unless they were satisfied that the proposals were beneficial to the persons interested and had a good prospect of being approved by the Court, and further that if they did not make the application no one would. In particular, it would not be right if it became the general practice for trustees to make application on the supposition that if the application should fail it would be more probable (though not certain) that the costs of all parties would be directed to be met out of the

trust funds.

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# Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

# **Stabilizing Share Prices**

SIR, — In a recent letter to *The Times*, Mr Colin Perry pointed out that it was virtually impossible for a fall in stock exchange prices to be restricted to the level of a 'technical adjustment'. This is because, as share prices fall, jobbers are forced to buy some shares as a hedge against a subsequent rise and, given the capitalization of the London Stock Exchange securities today, they quickly arrive at a point where their funds are fully committed. Should the public abstain from buying at this stage, then the jobbers must accentuate the drop in buying prices, thus changing a fall into an avalanche.

In Mr Perry's letter it was claimed that the jobber system affords the London Stock Exchange some protection in this situation, but Mr Frederick Ellis has shown (in the *Daily Express*) that the declines in prices have been sharper in London than in New York. This is a point which I have also made in my book *How to Make Money on the Stock Exchange*.

Whatever merit the jobber system may have (and there are some advantages which informed people in the U.S.A. have pointed out) it cannot work as a share price stabilization scheme. This is because it lacks two vital elements, namely, a capital related in size to the magnitude of the work to be done, and a pricing policy which makes its intervention necessary and not voluntary. We thus arrive at the ridiculous situation of a market with no bottom to it, where the least wind can blow away the whole superstructure of credit and confidence upon which it is built, causing ruin to millions of people who have invested their savings in it, and eventually bringing the whole economy to a standstill.

If it is accepted that some sort of price stabilization scheme is needed, then it seems to me a very simple matter for accountants to devise one. My own suggestion would be to arrive at a 'lowest value' for every share dealt in, using the information disclosed by the annual accounts and applying a formula to take into consideration special risks in relation to the probability of maintaining or increasing profits. This 'lowest value', which would be published, would be the price at which the share price stabilization fund manager would intervene and purchase all shares on offer. At the end of the crisis, when share prices became again subject to the laws of supply and demand under normal conditions, the fund manager would sell at a price high enough to recreate the fund

and provide a small contribution towards operating expenses – say, 5 per cent above purchase price.

Where would the fund come from and how big would it need to be? The answer to this can be found by asking what happens to the proceeds of sale of securities. They are credited to the investors' bank accounts. Very well then - let the banks constitute the fund as an unlimited amount of credit which they would allow its manager to draw upon for this purpose. They would never be called upon to pay out more than they would receive as deposits, and they would be reimbursed by the fund manager as he liquidated the fund by sales to their customers.

This is a most important field for accountants to show the contribution which they are capable of making to the creation of a just and ordered society. Is it not possible for us to sponsor a share price stabilization scheme of the type I have attempted to outline?

Yours faithfully,

KENNETH S. MOST, LL.B., F.C.A.

London SW7.

# **Deposit Account Interest**

SIR, – In connection with the recent correspondence on the above subject, may I refer the Public Relations Officer of Lloyds Bank Ltd to the following extract from the judgment of Lord Goddard in *Hart v. Sangster* (36 A.T.C. 63; 37 T.C. 237):

'there was no special arrangement at the time that he (Sangster) opened his deposit account entered into between him and the banker. The Commissioners have found, therefore, that the contract between them was the ordinary contract common between English bankers and their customers in respect of deposit accounts. They have set their reasons out in the case and they find that

"interest on deposit accounts was calculated on the principal on a day-to-day basis and was credited on half-yearly rest dates, June 20th and December 20th, in each year. When it was so credited the interest became principal and then (and not before) began itself to earn interest".

Yours faithfully, London EC2. A. F. CHICK.

# **Professional Fees**

SIR, - I see that in the June 30th issue of *The Accountant* you report the President of the Scottish Institute as asking members in industry to give preferential treatment to members in practice when the question of fees for professional services arises.

I believe that this view is quite unreasonable, and that it is the duty of members of the Institute in commerce to put first their loyalty to the firm that employs them and to obtain what their suppliers have to offer, whether it be professional services or raw materials, as cheaply as possible.

Yours faithfully, D. J. BENNINGTON, A.C.A.

Ruislip, Middx.

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

# ANNUAL SERVICE

The annual service of The Institute of Chartered Accountants in England and Wales was held at the Church of St Margaret's, Lothbury, London EC2, last Wednesday. The President and members of the Council together with a good number of other members of the Institute, attended.

The service, conducted by the Rector, the Rev. A. John Drewett, M.A., B.SC., commenced with the hymn 'Glorious things of thee are spoken'. After the singing of Psalm 148, the lesson from St John, chapter 6, verses 1-14, was read by the President, Mr P. F. Carpenter, F.C.A.

The other hymns were 'Immortal, invisible, God only wise' and 'Now thank we all our God'. The collection for the Chartered Accountants' Benevolent Association amounted to £45 178 6d.

The Rector delivered the following sermon:

#### The Sermon .

Whence shall we buy bread, that these may eat? (John 6, 5)

Economics is often called the dismal science. It is not clear why it has earned this rather depressing reputation but one possible explanation is that it has always been difficult to make both ends meet; the gap between demand and supply seems ever to be widening.

Economics has its origins in housekeeping and perhaps we should keep closer to reality if we thought of it in these simple and homely terms. No doubt the science itself, now immensely complicated by obscure mathematics, can only be understood by the expert; but its subject-matter is our common experience. The great Alfred Marshall begins his classic treatise with the words 'Political economy or economics is a study of mankind in the ordinary business of life'. He goes on to state that 'the two great forming agencies of the world's history have been the religious and the economic'. Theoretical economics may be difficult, beyond the understanding of the ordinary man, but the day-to-day business of feeding the millions of people who make up the human family is something which presses heavily upon statesmen, farmers and business men the world over and is a matter of life and death for all of us.

If then we turn from abstract theory and see economics in terms of people and their needs we are at once faced with the real problems of the modern world. Affairs have been so ordered that the natural wealth of the world is not evenly distributed. Some areas are provided with an abundance of good things, others are unproductive and can only support human life at a bare subsistence level. Some parts of the world are grossly overcrowded; others, by comparison, are almost empty. The result of this is that some nations have an increasingly high standard of living whilst others are always on the edge of the starvation line.

For Christians these conditions pose fundamental questions of conscience and morality from which they cannot escape. Christianity, by its very nature, believes

in the dignity of the individual person and his right to a standard of life which will enable him to live in freedom from ignorance, poverty and disease. A condition of affairs in which the rich nations are increasing their wealth at the expense of the poor nations offends against the Christian belief in justice and brotherhood. The Christian community in the world contains people of all races and nationalities and, as the Church increasingly realizes its mission to the world, it becomes more urgently aware that an important part of this mission is the creation of a world order in which every man can make his own contribution to the common good and receive, in return, the due reward of his labour.

Christians, unless they have undergone the appropriate training, do not profess to be experts in international affairs, economics or technology. But they do claim the right to ask the experts to give their attention to the solution of the basic problems which face mankind. It is the function of religion to hold a worthy vision before men's eyes so that their activities may be directed to purposes beyond themselves and their lives made worth living in the deepest sense of the word. There can be no future for the human race at all if each one of us is satisfied with the world as it is and is only concerned with his own share of the spoils. There is surely something wrong with a world which is squandering its wealth on weapons of destruction while millions are living at starvation level. If it is true, to quote the American Secretary of State, that 'neither the United States nor the U.S.S.R. has so many schools hospitals, and highways, or so many scientists, engineers, scholars and artists, that we could not put to better use the funds and energies and talents which go to make our warships and tanks and missiles', it is equally true of all countries, including our own.

And yet we know why this frightful misuse of the world's resources is allowed to go on. It is caused by a bankruptcy of spirit. Lack of any real conviction about the purpose of life; fear of other men; an unwillingness to make new political and economic experiments; too great a preoccupation with trivialities; these and many other symptoms of spiritual poverty find expression in the breakdown of human community and in preparation for mass destruction.

# Hope and Sanity

Can anything be done to reverse this trend and to bring hope and sanity to the world? The first essential would seem to be a new awakening of faith in the future of man's life on this earth. This would lead, in turn, to a constructive and creative attitude in place of the present negative and destructive one. There are too many people who, when faced with the kind of problem described in our text, are helpless and despondent. There is a lad here with five barley loaves and two small fishes, but what are they among so many? Jesus decides to do what he can with what is available and so he brings a new spirit to bear upon the

problem. The hopes of the multitude are raised; they sense that someone who knows what he is doing is in charge of the situation. The available food is shared amongst them and there is enough to go round.

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The poverty of the world may not be man-made but men are now responsible for its continuance. We now have the knowledge and the power to work the miracle of feeding the hungry millions of the under-privileged countries. What we need is the compassion to put this task at the top of our priorities. At the recent Assembly of the World Council of Churches at New Delhi, the leaders of the churches called for such constructive action. "To share the benefits of civilization with the whole of humanity is a noble and attainable objective. To press the war against poverty, disease, exploitation and ignorance calls for greater sacrifice and for a far greater commitment of scientific, educational and material resources than hitherto. In this common task, let the peoples find a positive programme for peace, a moral equivalent for war.'

# New World

There is some evidence that we are at the point of departure for the new world opening up before us. The Freedom from Hunger Campaign has recently been launched in this country by the Duke of Edinburgh. A call is going out to the western world to bring all its resources to bear upon this most urgent problem. At the present time only 10 per cent of the earth's surface is food producing; it is estimated that this can be raised to 30 per cent. But at the same time the population of the world is shooting up. It is now 3,000 million; by 1975 it will be almost 4,000 million. Unless great efforts are made, the gap between supply and demand will continue to widen. In many parts of the world, greater productivity depends upon the spread of education. Here again, a beginning is being made. The call has gone out to young teachers in America and Britain to spend some years in Africa and Asia. New schools and universities are being built in

the newly independent countries. All this is a constructive answer to the question, 'Whence shall we buy bread that they may eat?'

Bread for men's bodies is an urgent need, but is this enough? In the worthy endeavour to satisfy our need for material things, there is often the danger that we may forget that man cannot live by bread alone. He may be kept alive, but this is not the same as living. The Lord himself was afraid that men would be content with the bread that perishes and would scorn the living bread which he had come to bring. 'I am come that they might have life and have it more abundantly.' It is this abundant life which it is the business of the Church to supply.

And let us not become vague and otherworldly when we think of this life of the spirit. Without justice, compassion, patience, joy, freedom and peace, no amount of material comforts will satisfy men's needs. All these are imponderables; they cannot be weighed or measured; they are not susceptible to scientific analysis. But they are real and without them life becomes an unlovely struggle for mere survival, a rat-race in which the weak are sacrificed to the strong and the honest to the unscrupulous.

Amongst the first to recognize the need for these spiritual goods are the deprived people themselves. They do not wish to be thrown the crumbs from the rich man's table; they bitterly resent any suggestion that they are the recipients of charity. What they need is help to get on to their own feet and to become selfsupporting. When they are independent in the fullest sense of the word, politically, economically and spiritually, then and only then will they be able to take their place as full and creative members of the world community. And when each nation and race is in a position to make its contribution to the whole; human family, then shall we all be enriched and a new world will have arrived. It will not be in our time, but history is now being made and the decisions of today will help or hinder the day of its arrival.

# Notes and Notices

#### THE ACCOUNTANT

# Index to Vol. CXLVI: January – June 1962

The general index to Vol. CXLVI – January to June 1962 – is published with the present issue. The parts of this volume, with the index, can now be sent for binding.

# PROFESSIONAL NOTICES

MESSRS ALLEN, BALDRY, HOLMAN & BEST announce that Mr P. W. SIMKINS, A.C.A., has been taken into partnership in their Guildford firm from July 1st, 1962.

Messrs Ashley, Wallace & Co, Chartered Accountants, of Brighton, and Messrs Thornton Baker & Co, Chartered Accountants, of London and elsewhere, jointly announce that as from July 1st, 1962, there has been a fusion of their interests and that in future the practices will be carried on under the styles of Ashley, Wallace & Co, Thornton Baker & Co, and Edmonds & Co.

Messrs Bryce Hanner & Co and Messrs E. M.

OWEN & Co, Chartered Accountants, of Liverpool, announce that they have amalgamated their practices as from July 2nd, 1962, and that as from the same date there has been a fusion of their interests with Messrs Thornton Baker & Co, Chartered Accountants, of London and elsewhere. In future the practices will be carried on under the style of Bryce Hanmer & Co, E. M. Owen & Co, and Thornton Baker & Co.

Messrs Caldwell & Braham, Chartered Accountants, of St Stephen's House, London SW1, announce that they have admitted into partnership Mr David A. Tate, A.C.A., who has been a member of their staff for a number of years.

Messrs Camm Metcalfe, Best & Co, Chartered Accountants, of Sheffield and Chesterfield, and Messrs Thornton Baker & Co, Chartered Accountants, of London and elsewhere, jointly announce that as from July 1st, 1962, there has been a fusion of their interests and that in future the practices will be carried on under the styles of Camm Metcalfe, Best & Co, and Thornton Baker & Co.

Messrs Cooper Brothers & Co and Coopers & LYBRAND of Northern Rhodesia announce that they have amalgamated their practice with that of W. D. WALKER & Co, of Kitwe, Northern Rhodesia.

MESSRS GERALD KREDITOR & Co, Chartered

Accountants, announce that they have moved their offices to Martin House, 68 Upper Thames Street, London EC4. Telephone: Central 1971/9622.

Messrs Newton, Armstrong & Co, Chartered Accountants, of 11 Grocers' Hall Court, London EC2, announce that Mr Ronald John Cody, A.C.A. (also of Messrs Smallfield, Fitzhugh, Tillett & Co, Chartered Accountants), and Mr Guy William TYRWHITT-DRAKE, F.C.A. (also of Messrs Josolyne, MILES & Co, Chartered Accountants), have joined them as partners. The practice otherwise continues unchanged.

Messrs E. M. Owen & Co, Chartered Accountants, of Liverpool, announce that they have amalgamated their practice with that of Messrs Bryce Hanner & Co. as from July 2nd, 1962, and that also from the same date there has been a fusion of their interests with Messrs Thornton Baker & Co. Chartered Accountants, of London and elsewhere. In future the practices will be carried on under the styles of E. M. OWEN & Co, Bryce Hanmer & Co, and Thornton Baker & Co. ~ Mr REGINALD PEARCE, Chartered Accountant, of Yeovil, announces that Mr B. A. Collins, A.C.A., has joined him in partnership as from July 1st, 1962. The style of the practice has been changed to Pearce, COLLINS & CO.

MESSRS PETTITT, MADDOX & Co, Chartered Accountants, of Bournemouth, and Messrs Thornton Baker & Co, Chartered Accountants, of London and elsewhere, jointly announce that there has been a fusion of their interests and that as from July 1st, 1962, the practices are being continued under the styles of Pettitt, Maddox & Co and Thornton Baker & Co.

Messrs Price Waterhouse & Co, announce that Mr C. Collett, A.C.A., was admitted to partnership in their Newcastle firm on July 1st, 1962. They also announce the establishment of a firm at Manchester, the partners in that firm being the partners in the London firm and Mr A. D. Copley, f.c.a.

Messrs Robson, Morrow & Co announce that Mr John P. Hough, A.C.A., and Mr Peter G. Targett, A.C.A., both of whom are members of their staff, have been admitted to the partnership as from July 1st, 1962.

Messrs Thornton Baker & Co, Chartered Accountants, announce that they have admitted into partnership as from July 1st, 1962, Messrs F. R. FLOWERS, A.C.A., E. C. GODFREY, A.C.A., and T. PITTOM, A.C.A., of the Leicester office, Messrs E. A. Fern, A.C.A., and J. F. JEE, A.C.A. of their Coventry office and Mr J. Brown, A.C.A., of their Aylesbury office.

Messrs Joshua Wortley & Sons, Chartered Accountants, of Sheffield, and Messrs Thornton Baker & Co, Chartered Accountants, of London and

elsewhere, jointly announce that as from July 1st, 1962, there has been a fusion of their interests and that in future the practices will be carried on under the styles of Joshua Wortley & Sons and Thornton Baker

### IN PARLIAMENT **Bankruptcy Petitions**

Mr Talbot asked the Chancellor of the Exchequer how many petitions in bankruptcy were presented by the Commissioners of Inland Revenue in the years ended April 5th, 1960, and April 5th, 1961, respectively.

Sir E. Boyle: 203 and 259. Hansard, June 26th, 1962. Written Ans. Col. 123.

### Income Tax and Surtax

Mr Talbot asked the Chancellor of the Exchequer how much income tax and surtax were lost in the years ended April 5th, 1960, and April 5th, 1961, by reason of individuals leaving the country to avoid payment; and what was the number of individual cases concerned.

Sir E. Boyle: The total of the income tax and surtax written off as irrecoverable in the accounting years 1959 and 1960 because the taxpayers had gone abroad was £139,190 and £281,106 respectively: of these amounts surtax accounted for £69,809 and £147,182 respectively. There were in all 683 individual cases in 1959 and 794 in 1960.

Hansard, June 26th, 1962. Written Ans. Col. 123.

### THE COMPANIES (FORMS) (AMENDMENT. No. 3) ORDER, 1962

A company incorporated under the laws of a foreign country and with a place of business in Great Britain is required to deliver to the Registrar of Companies a certified copy of the document which defines its constitution. The certification has to be authenticated by a British official in the country of incorporation.

The Board of Trade have made the Companies (Forms) (Amendment No. 3) Order, 1962, amending the Companies (Forms) Order, 1949. The new Order, which came into operation on July 2nd, removes the necessity for this authentication. This brings the requirements in respect of foreign companies in line with those in respect of companies incorporated in Commonwealth countries.

Copies of the Order, S.I. 1962, No. 1302, may be obtained from H.M. Stationery Office, price 3d.

### **HOTELS AND RESTAURANTS**

HAMMERSLEY KENNEDY & CO, 19 Hanover Square, London WI, have since 1899 specialized in the sale and valuation of hotels and catering businesses to the exclusion of any other branch of estate agency. The partners are members of the leading professional bodies.

### OMPANY

56 VICTORIA STREET, LONDON SWI

Telephone: Victoria 2002 (3 lines)

#### REVALUATION OF **ASSETS**

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

## DOUBLE TAXATION Republic of South Africa

The Double Taxation Convention between the United Kingdom and South Africa, which was signed in Cape Town on May 28th, was published last week as a

Schedule to a draft Order in Council.

The Convention provides for the avoidance of double taxation of income and profits and is expressed to take effect in the United Kingdom for income tax from April 6th, 1962, and for profits tax from January 1st, 1962. It replaces the agreement signed on October 14th, 1946, and the Supplementary Protocol signed on November 5th, 1954.

### BOARD OF TRADE Removal from Lacon House

All those departments of the Board of Trade at present located in Lacon House, Theobald's Road, London WC2, are being removed during this month to Hillgate House, 35 Old Bailey, London EC4. (Telephone: City 5757) except for the Registry of Business Names which, as already announced (*The Accountant*, May 26th issue), will remove during the week-end of July 7th-8th, to the new Companies House, 55/71 City Road, London EC1. (Telephone: Clerkenwell 9393.)

All mail and telegrams dispatched up to and including July 19th, should be addressed to Lacon

House, and after that to Hillgate House.

### MANAGEMENT ACCOUNTING CONFERENCE

Members of The Institute of Cost and Works Accountants holding senior positions in industry met for a management accounting conference last week-end at the Worcestershire Brine Baths Hotel, Droitwich.

Two papers were discussed. In the first, entitled 'Controlling the return on capital employed', Mr J. L. Hilton, F.C.W.A., M.B.I.M., financial director of General Refractories Ltd, discussed the declining return on capital employed brought about in many industries by

social and economic pressures.

The second paper, entitled 'Reporting for profit', was presented by Mr A. I. G. Farquharson, c.A., A.C.W.A., chief accountant of Storey Brothers & Co Ltd. The author discussed some of the factors involved in ensuring that sales management is kept informed of the implications of its sales policy on the prosperity of the concern.

## ACCOUNTANCY AS A CAREER 'At Home' Meetings at Moorgate Place

A series of 'At Home' meetings for pupils and parents is being held this month by the London and District Society of Chartered Accountants. The meetings will take place in the Oak Hall of the Institute at Moorgate Place, from Tuesday to Friday, July 17th-20th, commencing at 4 p.m., when tea will be served. Visitors will then hear a talk about the work of the chartered accountant and the opportunities offered by the profession; a question time period will follow and the meetings will end at about 6 p.m.

Some 500 headmistresses, headmasters and careers masters in the London and District Society's area have been advised of the 'At Home' meetings and it seems likely that a considerable number of pupils, their parents and teachers will be attending.

### SEVENTY-FIVE YEARS AGO

FROM The Accountant of July 2ND, 1887

The Institute of Chartered Accountants

The Jubilee meeting of the Institute held last week, reported elsewhere, afforded country members an opportunity, which was largely utilised, of joining in the enthusiasm which has characterised the proceedings of Her Majesty's subjects during the past week, and the Institute may certainly be congratulated on the happy idea of so arranging their proceedings as to enable accountants to view the regal festivities, and also to be present and participate in the attractive programme arranged by the Institute. The President, Mr. Frederick Whinney, entertained his hearers at the meeting, in that lucid manner which characterises his utterances, to an exhaustive address which treated with the origin and development of the profession, and also showed to some extent how the immense changes in locomotion, navigation, &c., that the Victorian era had witnessed had, by influencing commerce, been instrumental in building up the profession of Accountants to its present proportions. This was followed by an important paper on Company Law Amendment, by Mr. T. A. Welton, which we may have an opportunity of commenting on in a subsequent issue. The discussion was somewhat discursive and we fear that impromptu discussions will always partake either of meagreness or unsoundness, unless the plan is adopted, which has been several times suggested in these columns, and was warmly advocated by Mr. Jackson, of distributing proofs of the paper beforehand . . .

The dinner which was held at the Criterion the same day, was, as far as numbers and guests were concerned, one of the most successful in the annals of the Institute, and eminent members of Parliament, as well as prominent members of the Bar, bore testimony both to the esteem in which members of the Institute were held, as also to the high functions accountants are called upon to

fulfil.

The Conversazione on the following evening was extremely well attended, and members were blasé in the extreme who failed to appreciate either the excellent pictures which adorn the walls of the Grosvenor Gallery, or the attractive programme of music performed by the band.

The happy memories of the river trip, and the affability of Colonel Du Plat Taylor, C.B., who was good enough to personally conduct the company through a portion of the gigantic docks at Tilbury, will long linger in the minds of those accountants who were fortunate enough to be present at the last of the festivities. The pleasure of the trip was enhanced by the presence of the lady friends of members. The luncheon was excellent, and admirably served, and Mr. A. Murray gave utterance to the feelings of all concerned, when, in returning thanks for the country members, he referred to the extremely successful manner in which the Jubilee programme of the Institute had been carried out.

### ANNOTATED TAX CASES

The annual subscription to the Annotated Tax Cases is 50s post free; the publishers are Gee & Co (Publishers) Limited, 151 Strand, London WC2.

### CHARTERED ACCOUNTANTS' GOLFING SOCIETY

The summer meeting of the Chartered Accountants' Golfing Society was held at Stoke Poges Golf Club on

June	22nd.	The	leading	scores	were	as	follows
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## THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Spring Diet of Examination, May 1962

### PART V

Of the 323 candidates who sat Part V of the Institute's examination on May 15th, 16th, 17th and 18th, 1962, the undernoted 147 (45.5 per cent) candidates passed. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

The Institute's Gold Medal (for the candidate whose performance over Parts IV and V is the most meritorious)
Stephen, H. (Flockhart & Grant), Aberdeen

Distinction (for each candidate whose performance over Parts IV and V is sufficiently meritorious)
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# ACCOUNTANT

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in May 1962

## Short-term Gains - I

### CHARGEABLE ASSETS

In this and subsequent articles we propose to expound the principal features of the new tax under Case VII of Schedule D on short-term gains, imposed by Chapter II of Part II of the Finance Bill, as amended. The Bill received its third reading in the House of Commons on July 6th, very shortly after receiving copious Government additions at the recommital and report stage.

Before dealing with chargeable assets, as such, it may be helpful if we consider the transactions in them which attract tax. Clause 10 (1) provides that Schedule D income tax for 1962-63 and subsequent years shall be charged in respect of all gains accruing to any person, resident and ordinarily resident for the year in the United Kingdom, from his acquisition and disposal of any chargeable assets, not being gains which accrue as profits of a trade, profession, vocation, office or employment. A proviso excludes the sub-clause where either the acquisition or the disposal occurred before April 10th, 1962. This exclusion is modified by clause 14 which deals with transactions in shares of a land-owning company which itself has had transactions in land after April 9th, 1962.

'Person' includes persons in the plural, and also bodies corporate. However, it is a sine qua non of liability that the person who acquires and disposes shall be both resident and ordinarily resident in the United Kingdom 'for the year'. The rules for determining residence and ordinary residence are too complex to be reviewed here. However, it is worth observing that in practice, 'ordinary residence' and 'residence' can be regarded as commencing or ceasing at some date within the income tax year. Presumably if either acquisition or disposal occurs while the person is not both resident and ordinarily resident, then the fact that the complementary transaction occurs while he is both resident and ordinarily resident will not by itself attract tax, even though the income is deemed to accrue in the ordinary case on the date of the disposal. Where the chargeable person is not domiciled in any part of the United Kingdom, there are special rules for computing the income, i.e. on the remittance basis.

In excluding gains which accrue as profits of a trade etc., the draftsman was no doubt thinking of profits which are chargeable to British income tax, but he has not said so. A person resident and domiciled in the United Kingdom may carry on a trade wholly abroad, so that British tax is chargeable only under Case V of Schedule D, on actual remittances to this country. On a strict

construction of the Bill he could resist liability under the new Case VII, on the ground that the gains were part of the profits, even though there was no prospect of any remittance, and therefore no prospect of such gains suffering British tax.

Before dealing with the question of what is meant by 'acquisition' and 'disposal', it is useful to examine the meaning of 'chargeable assets' which are the subject of such acquisition and disposal. Clause 11 first lays down a very comprehensive definition, then it makes certain exceptions, and exceptions from the exceptions and so on. All forms of property whether situated in the United Kingdom or not are chargeable assets. Such property includes options, debts and incorporeal property generally. However, 'tangible movable property' is excluded, unless it falls within one of the following exceptions:

- (a) in relation to any acquisition and disposal by a person (i) dealing on a futures market or (ii) dealing with or through a person ordinarily engaged in dealing on a futures market, commodities of any description shall be charge-
- (b) currency of any description is chargeable assets. except in relation to an acquisition and disposal by an individual for the personal expenditure outside the United Kingdom of himself or his family or dependants (including expenditure on the provision or maintenance of any residence outside the United Kingdom);
- (c) tangible movable property of any description shall be chargeable assets in relation to any acquisition and disposal by a person acquiring it with a view to its employment in a trade or business carried on or to be carried on by him, but disposing of it without its being employed in that trade or business

Perhaps it is stressing the obvious to say that 'tangible movable property' is property which can be both touched and moved. Debts can be moved but not touched; land can be touched but not moved. No doubt in fixing on the phrase the draftsman had in mind the kind of goods which it is difficult to buy and sell without thereby being held to carry on a trade or an adventure in the nature of trade. In this connection paper, linen, immature whisky, and plant and machinery have all figured in litigation where the Inland Revenue have successfully argued that there was a trade. What the draftsman has probably not thought of is the fact that there is a strong body of opinion in favour of the principle that negotiable instruments are tangible movable property.

These would include share warrants, letters of allotment, and similar documents, the property in which can be transferred by mere hand to hand delivery. On the other hand, the definition of 'shares' in clause 16 (1) now provides that 'shares' or debentures comprised in any letter of allotment or similar instrument shall be treated as issued unless the right to the shares or debentures thereby conferred remains provisional until accepted and there has been no acceptance'.

Exception (a) is obviously designed to hit speculators in tin, coffee, cotton and similar commodities where there is an organized market. It would not hit acquisitions and disposals of negotiable instruments, since these are hardly 'commodities'. It is interesting to recall that in Cooper v. Stubbs (4 A.T.C. 373), a majority of the Court of Appeal held that transactions of this kind, if not constituting a trade, attracted tax under Case VI of Schedule D. Clause 10 (1) of the Bill does not expressly exclude Case VII liability where the gains are also caught by Case VI, but the Revenue cannot collect tax twice over.

Whereas the Inland Revenue have been successful in imposing Case I liability on gains from dealings in tangible movable property of the categories already mentioned, they have been very much less successful in the case of foreign currencies; hence exception (b). The exception is not confined to foreign currency, however, for obviously a person could buy and sell United Kingdom currency abroad and make a profit expressed in foreign currency, which would represent money's worth capable of being expressed in terms of United Kingdom money. No definition of 'currency' is given. It obviously includes bank-notes, which gives further point to the argument that negotiable instruments are tangible movables. Articles which are not currency in one place may well be currency in another: cowrie shells, Maria Theresa dollars, English sovereigns, not to mention more outlandish articles, are currency in some territories.

One can say little good of exception (c). It begins by repeating, unnecessarily, the phrase 'tangible movable property'. Then it provides for liability which depends on motive. Moreover it does not provide for the case where the person acquires the property with a view to employing it in one trade but in the event employs it in another trade. In that event it seems that there

will be double taxation. Finally, it is difficult to see just why there should be liability in this special case.

So much for tangible movable property. The Government's desire to encourage individuals to own their own houses leads it into strange channels; for instance, the reliefs from stamp duties on all conveyances under £6,000. Clause 11 (3) allows an individual a ration of one main residence which he can buy and sell without attracting Case VII liability, provided that he does not acquire it 'wholly or partly for the purpose of realizing a gain from the disposal of it' (clause 11 (7)). Clause 11 (3) provides that the dwelling-house or part of a dwelling-house which is an individual's only or main residence shall not be chargeable assets in relation to any acquisition and disposal of it by him. The same applies to land which he has for his own occupation and enjoyment with the residence as its garden or grounds. Bearing in mind the well-known proclivity of some astute persons to acquire residences surrounded by large areas of garden and park land which is dead-ripe for development, clause 11 (3) restricts the size of the land (including the site of the dwelling-house) to one acre. However, the Appeal Commissioners are given a discretion to enlarge this limit if they are satisfied that the larger area is required for the reasonable enjoyment of the residence, regard being had to the size of the dwelling-house. Thus, if an individual acquires a mansion which is divided into flats, occupies one flat, and retains for himself the whole of the grounds, it is open to the Appeal Commissioners to say that all the grounds are exempt from being chargeable assets.

It will be seen that the Appeal Commissioners merely decide how much more than an acre is to be treated as not being chargeable assets; it is not given to them to pre-select the precise tract of ground. Clause 11 (3) contains what appears to be an afterthought on this topic. Given that only a specific area of the land qualifies for exemption (normally one acre including the site) then for the purpose of identifying this 'permitted area' one has to take the part of the land which 'if the remainder were separately occupied, would be the most suitable for occupation and enjoyment with the residence'. This seems to be going round in a circle; obviously, if the excess land is identified and is assumed to be separately occupied, then necessarily the remaining one acre, or whatever it is, will be the most suitable to enjoy with the house. The words 'if the remainder were separately occupied' seem to be superfluous.

We have already mentioned clause II (7) which withholds the exemption unless the individual acquired the property for the purpose of residing there and not wholly or partly for the purpose of realizing a gain from the disposal of it. It seems that if he intended to realize a gain from the disposal of part of the property he will not be caught by clause II (7). Accordingly the individual postulated above who acquired a mansion with the intention of disposing of the grounds, but not the mansion itself, would seem to be outside clause II (7). This is a curious lacuna particularly in view of THE ATTORNEY-GENERAL's following observation in the House of Commons on May 22nd (our italics):

'one of the frequent means of securing large speculative gains now is to buy a property with extensive grounds and, while retaining the property, to sell part of the grounds for development'.

Clause 10 (6) has its own proviso:

'but where a person acquires land as a site for a building or structure, and disposes of it after the erection of the building or structure, subsection (3) or (4) above shall not be prevented from applying by reason of his not having acquired the land with the building or structure on it'.

By this afterthought the draftsman seems to be grappling with the really insoluble problem that hardly anybody buys any house without some hope of reselling it at a profit. The first part of clause 11 (7) does not confine itself to the case of a person intending to resell within the statutory three years, and therefore it would seem very difficult for anyone to satisfy the Appeal Commissioners that he is not caught. The afterthought does not really solve the problem; it is setting fact against motive, which is rather like deducting peas from beans.

Clause 11 (3) gave rise to a good deal of discussion at the Committee stage on May 22nd. The Attorney-General confirmed that cottages occupied by, e.g. domestic servants, and outbuildings such as coach-houses, stables and garages would not enjoy the exemption. He added that he thought it very improbable that the sale of outbuildings would bring any real liability. One wonders, therefore, why they should not be treated in the same way as the house itself.

(To be continued.)

### THE JENKINS REPORT

## Accounting Exemptions for Banks

of opinion inside the Committee on the question of the exemptions granted to banks and discount houses. The majority was for the full retention of these exemptions, but a strong minority of five, including Mr W. H. LAWSON, C.B.E., B.A., F.C.A., Mr K. W. MACKINNON, Q.C., M.B.E., T.D., and Professor L. C. B. GOWER, M.B.E., was for severely cutting them down.

It is helpful to put the matter into some historical perspective. The Companies Act, 1929, did impose some obligation to publish accounts of a sort but the accounts which were in practice published were somewhat rudimentary. In particular, there was practically carte blanche to make undisclosed transfers between reserves and profit and loss accounts. A cause célèbre in 1931 focused the limelight on this practice. The Royal Mail Steam Packet Co issued a prospectus relating to an issue of £2 million 5 per cent debenture stock, which was said to be required for the new freehold building of the company and for the general purposes of the company. After mentioning the depression which the Royal Mail and other shipping companies had gone through the prospectus said that:

'the audited accounts... show that during the past ten years the average annual balance available (including profits of the insurance fund), after providing for depreciation and interest on existing debenture stocks, has been sufficient to pay the interest on the present issue more than five times over.

'After providing for all taxation, depreciation of the fleet, etc., adding to the reserves and payment of dividends on the preference stocks, the dividends on the ordinary stock during the last seventeen years have been as follows:'

A table followed showing the varying dividends for the seventeen years to 1927.

Although all these statements were admitted to be true, the fact remained that the company incurred substantial trading losses in every one of the years 1921 to 1927 inclusive. The 'balance available' each year had been created by non-recurring adventitious items like excess profits duty repayments, and the reduction of tax re-

serves. This misleading announcement, besides giving rise to a criminal prosecution, showed up the deficiencies of company accounts as then published.

When the Cohen Committee reported in 1945, it called attention to the problem of undisclosed reserves and made its now well-known recommendations on accounting requirements, which were incorporated in the 1948 Act. However, it made exceptions in favour of banks and discount companies and of insurance companies. These exceptions appear in Part III of the Eighth Schedule to the 1948 Act.

The Institute of Chartered Accountants of Scotland included in its written submissions to the Jenkins Committee the observation that there could be no adequate reason on purely accountancy grounds for the exemptions afforded by Part III, which placed the auditor in a somewhat invidious position. Although his certificate as to the true and fair view is by statute 'subject to the non-disclosure of any matters (to be indicated in the report) which are not required to be disclosed', the Scottish Institute made the point that it is difficult to see how in *any* sense a 'true and fair view' can be produced where, for example:

- (i) the disclosed results are distorted by exceptional items and changes in the basis of accounting;
- (ii) profits have been arrived at after the transfer of unspecified sums to or from reserve.

The Institute submitted that if the exemptions continued, then the auditor's report ought to be redrawn so as to be more in keeping with reality.

The Trades Union Congress attacked the exemptions both in writing and orally. One of the T.U.C. witnesses asked the blunt rhetorical question: Should a bank be allowed to publish misleading accounts? However, defenders of the exemptions were not lacking, notably the Committee of London Clearing Bankers, whose chief spokesman, Sir Oliver Franks, G.C.M.G., K.C.B., G.B.E., had to answer some searching questions from Lord Jenkins and from Mr Lawson. The banks grounded their submissions on the Cohen Committee's own proviso to its attack on un-

disclosed reserves, namely, that the interests of depositors and policy holders outweighed those of the shareholders. The reputation for stability of these companies, at home and abroad, was a national asset of first importance. From time to time the values of their assets, particularly large holdings of gilt-edged, were affected by political and economic conditions and 'in such circumstances it is desirable that their financial strength should be even greater than may appear'. The Cohen Committee, therefore, considered that such companies be absolved from the obligation of showing separately reserves and provisions and transfers to and from such accounts, but that their balance sheets should indicate the existence of reserves and provisions and their profit and loss accounts should be appropriately worded to show whether any such transfers had been made during the accounting period. The Cohen Committee did not expressly deal with the necessary corollary to this recommendation, namely, that banks etc. should be allowed to publish accounts showing them to be in a better position than they in fact were: which was such a feature of the Royal Mail case. The Committee of London Clearing Bankers nevertheless supported this aspect of the matter in the following words:

'the spectacle of heavy drafts on those reserves at other times [i.e. bad times] might undermine that unquestioning confidence in the stability of the banks which is acknowledged to be a national asset of the first importance'.

To this it was said that in 1956 four of the London clearing banks voluntarily indicated by notes on their balance sheets that their investment reserves had been more than exhausted, and this had no perceptible effect on confidence either at home or abroad. The banks' reply was that this disclosure in the accounts did not by any means necessarily indicate the full extent of the losses suffered and that in different circumstances a full disclosure might have had a far more serious effect on public confidence. This was the reply which carried the day with the majority of the Jenkins Committee. Everyone seems to have admitted the obvious criticisms of the exemptions, and no one suggested that a run on the banks was at all probable, but Sir OLIVER FRANKS argued that the Committee would have to be sure that it could not happen, if it was to recommend withdrawal of the exemption. There was another

knight, the White Knight, who no doubt recognized the inconvenience of keeping a mouse trap on his horse, and certainly admitted that mice on a horse's back were not very likely. Nevertheless, if they *did* come, he didn't choose to have them running all about.

We prefer the reasoning in the note of dissent by the minority of the Jenkins Committee. It agrees that it is essential to maintain confidence in the banking system, but is not convinced of the necessity, for this purpose, of withholding information about the banks' operations from the public or from the shareholders. Still less is it convinced of the necessity of withholding all the information that the law at present permits to be withheld. The minority is not satisfied that all classes of banks need be treated alike, and it believes that such exemptions as are shown to be necessary should be granted, not by the Act, but by the exercise by the Board of Trade of their discretionary powers (widened if necessary) under paragraph 25 of the Eighth Schedule. It is wrong in principle that exceptions should be made from the 'true and fair view' test, a test which is imposed as part of the price paid for incorporation under the Companies Act. The banks have not argued their case on grounds of principle, but of expediency.

One of the effects of the wide exemptions, according to the dissenting note, is to freeze the published accounts of all banks into a rigid pattern, in a form widely used for public companies many years ago, and which ignores the great changes in accounting practice since then. Investment analysts already make their own estimates of the true profits of the clearing banks; estimates which are given wide publicity. The minority doubts whether in modern conditions it would be practicable for a particular bank, or for banks generally, to conceal any serious weakness which had developed. It is thus arguable that these exemptions, when put to the test, might prove in any case useless. The minority's main point, however, is an independent one, namely, that on the evidence available, many of the exemptions now granted are unnecessary, except perhaps for banks operating mainly overseas. Of course, the banks say that all the exemptions hang together; if one were withdrawn the rest would be of little or no value. Inner reserves must remain secret in order that drafts on them may be made

to meet exceptional losses without disclosure. Annual profits must be concealed so that transfers from them may build up secret reserves. Taxation, if disclosed, would indicate the true level of profits; and so on. The minority's short answer is that it is not convinced that any of the exemptions is necessary. But if there is to be some concealment, some of the exemptions are more objectionable (and less useful) than others. Moreover, it would be practicable to maintain some of the exemptions while withdrawing others.

The minority does not greatly cavil at undisclosed reserves as such, but it is not satisfied that any real harm would result from disclosing realized losses after they have been incurred, even if potential losses were kept secret. Losses on investments can be explained; large bad debts usually become public in any case, when the bank appoints a receiver or petitions for winding up. A compromise would be to give bank directors power to defer for a limited period the disclosure of realized losses, provided they were covered by inner reserves.

When concealed transfers are made from inner reserves to bolster up the published profit, the minority think it quite wrong that a bank should accept deposits on the footing of such published accounts. Certainly it is not easy to distinguish such a practice from what was done in the Royal Mail case. As to concealed transfers from profit to inner contingency reserves, the minority thinks that this is a breach of the essential requirement that the accounts give a true and fair view of the profit. It has the impression that undisclosed transfers to inner reserves are made not so much to strengthen those reserves as to reduce consistently the real profits of the banks. True, a year is a very short period for many businesses, and particularly for banks which have to take the long view. If there is a real objection to showing the true profit of a particular year, this could be got over by a requirement to state the true profit over a longer period, say three or five years. This is better than an untrue statement every year. As to taxation, the minority sees no objection to nondisclosure of a tax equalization account or of movements through it, so that the taxation charge is in line with the published profit. As to market value of investments, the banks have already agreed that this be shown when it is below cost, and the only objection to showing it when above

cost is that this puts up an unreal paper profit. In this respect there is no reason why banks should have any privilege. The same applies to the disclosure of the cost of bank premises and the depreciation charged on it.

The Committee did not ask to see the banks' full accounts, because of the publicity of its inquiry. Nor, apparently, did the banks volunteer this information, either for current periods or for the past. The minority suggests that the banks be invited to submit their full accounts in confidence to the Board of Trade, showing over, say, the last ten or twenty years (a) the transfers to inner contingency account and the sources from which they came, and (b) the amounts debited to inner reserves, their nature, and the reason why they were not charged openly. Some of the accounts so submitted could be reconstructed on the basis of the limitation of the exemptions as suggested by the minority. In our view, unless the banks are prepared to submit their full accounts in this way, over a long period, to some impartial body (as they already submit them to the Inland Revenue) they cannot be said to have made out their case for any exemptions at all.

Insurance companies enjoy the exemption accorded to banks from the provisions of the Eighth Schedule to the Companies Act, 1948, but the Insurance Companies Act, 1958, which replaced a similar Act, requires such companies to deposit with the Board of Trade accounts which in many respects are even more informative than those required by the Companies Act. The Committee accepts the view of the British Insurance Association that 'there is a strong case for the statutory control of the contents of the profit and loss accounts and balance sheets of an insurance company being based on the requirements of the Insurance Companies Act, 1958, rather than on those of the Eighth Schedule of the Companies Act, 1948'.

The Committee suggests that the precise form of accounts should be worked out between the industry and the Board of Trade and that all the requirements as to insurance company accounts be contained in one set of regulations. These would impose the obligation to give a true and fair view, but subject to exemption from disclosure of the market value (if above balance sheet value) of investments or of the profits on sales of investments and other assets.

## Taxation of Lloyd's Underwriters

by ARTHUR REZ, B.Com.(Lond.), F.A.C.C.A.

O mention the name 'Lloyd's' is immediately to conjure up in one's mind that worldrenowned organization, born in a City coffeeshop over two hundred years ago, engaged in the insurance of ships and their cargoes. As is universally acknowledged, Lloyd's of London is preeminent, with its global sources of information, for undertaking the insurance of all hazards that may be encountered by those venturing on the high seas. But, of course, Lloyd's does not confine itself to the insurance of ships and merchandise but also undertakes to indemnify anybody against losses arising from almost every kind of risk, usual and unusual, business and personal, and even from eventualities which are in essence hardly more than wagers against the occurrence of any conceivable contingency.

Tremendous sums may be involved in a single insurance, such as the foundering of a liner, the destruction by earthquake of large buildings, or the loss of valuable stocks or cargoes. The spreading of risk is therefore an essential element in the day-to-day business of Lloyd's. Consequently, the indemnities are normally underwritten by a large number of members of Lloyd's, who form themselves into syndicates, each of which usually confines itself to specific types of insurance. This, of course, does not preclude a person from becoming a member of more than one syndicate, thus engaging in the insurance of many kinds of risk, for each of which he bears a minute fraction of the liability.

### **Unlimited Liability**

Of course, it would not be practicable for each individual member of Lloyd's, or even each syndicate, to carry out the actual work of underwriting. There has, therefore, developed the system whereby the task of managing a syndicate is entrusted to insurance specialists who have the advantage of long and extensive experience of the business.

Obviously, the receipt of premiums is only one facet of insurance activity. The agreement and settlement of claims is of necessity a major preoccupation. And as claims may at certain times exceed the premiums, it is necessary not only to organize the syndicates so that sums are placed to reserve against unprofitable eventualities

but to enlist as members persons who, in the unfortunate occurrence of a major disaster, are in possession of adequate private resources to satisfy the tremendous amount of the claims which would have to be met. For it must be stressed, Lloyd's underwriters must face the fact that their liability is unlimited.

The consequence is that there is a considerable number of members of Lloyd's syndicates who obviously can only assume the role of sleeping partners and whose sole qualification consists of the wealth which they possess. In fact, there are members who reside permanently overseas. The wide spread of risk removes the probability of results contributing to an underwriter's financial ruin, for undoubtedly over a long period the business of a Lloyd's underwriter can be very profitable. If this were not so, there would not be the attraction which produces a continuing flow of wealthy aspirants for membership of Lloyd's.

The measure of the fortune which a prospective Lloyd's underwriter must possess can be gauged by the fact that he must satisfy the committee of the corporation that he is worth something like £75,000. Once this hurdle is overcome, he must place in the name of the corporation a considerable sum which is invested or may be represented by investments he already holds. The income on this deposit continues, however, to be received by the underwriter. This is in reality. an immediate cash guarantee. In addition, he must make available to the syndicates he joins a sum which is placed to a premiums trust fund, also destined to meet commitments in case of necessity. These conditions for entry apply to non-working underwriters. For others, the only requirement is to provide the Lloyd's deposit and the sum for the premiums trust fund.

### Tax Assessment of Underwriters

Although each syndicate is composed of a number of underwriters, it is not treated for tax purposes as a partnership. Each member is assessable individually under Case I, Schedule D. For this purpose, the underwriter's shares of the profits and losses of all the syndicates of which he is a member are aggregated. A non-resident of the United Kingdom is liable in the same way as a resident, and there is no freedom from tax

on income from investments held by a syndicate on behalf of a non-resident which would be otherwise exempt (Owen v. Sassoon (30 A.T.C. 41; 32 T.C. 101).

Owing to the unavoidable delay in closing underwriting accounts due to the settlement of claims relating to a particular year not being ascertained until some considerable time afterwards, the profits of a year cannot be agreed for assessment until two years have elapsed. The tax assessments, therefore, are usually made two years in arrear.

The underwriting profits are treated as earned income only in the case of those members who are in daily attendance at Lloyd's, i.e. persons who are engaged in underwriting business. Thus the majority of such underwriters do not enjoy this relief. This is an important factor, the more so since the enactment of section 14, Finance Act, 1961, giving surtax relief for earned income.

### Loss Relief

Relief for losses under sections 341 and 342, Income Tax Act, 1952, as well as section 15, Finance Act, 1953, can be claimed in the ordinary way, but in the first four years, section 341 claims must be based on the apportioned figures to coincide with the respective fiscal years. The underwriting year is the calendar year but after these opening years, such relief, given against any taxed income, may by concession be based on the loss of the underwriting year.

The first three years' assessments are, in the normal way, based on the profits of the initial twelve months' results, with the consequence that two and one-quarter years' tax is calculated by reference to the first year's profits. If, therefore, the underwriter intends to join a number of syndicates, it is advisable for his opening membership to be limited to one syndicate, so as to restrict the first year's profits. It is, however, possible to invoke the provisions of section 129, Income Tax Act, 1952, so that the second and third years' assessments are based on the profits of those fiscal years. The year of cessation is based in the ordinary way on the last period from April 6th, and the assessment of the penultimate year remains undisturbed unless the apportioned profits of that fiscal year are higher, in which event an additional assessment arises.

As only British subjects may at present become Lloyd's underwriters, members who are resident outside the United Kingdom are entitled to proportionate allowances and reliefs under section 227 of the 1952 Act.

The underwriting profits are treated as a part of the total income for surtax, and as already indicated only those members of Lloyd's who are working underwriters will enjoy the benefit of the earned income relief under section 14, 7 Finance Act, 1961.

An underwriter is normally expected by the syndicate to permit a part of the profits to be placed to reserve in addition to the premiums trust fund. These reserves, which are invested and produce taxable income, do not, however, reduce the adjusted profits for taxation. In view of the fact that underwriting profits, aggregated with other income, may give rise to high rates of surtax and in years when losses are incurred the reduction in surtax would, assuming the other income remains stable, be at lower rates, there are special provisions (section 480 and the Twentyfirst Schedule, Income Tax Act, 1952) enabling underwriters to postpone the impact of surtax on that part of the profits retained in the business for the purpose of meeting future commitments.

### Special Reserve Funds

While it is reasonable for the incidence of taxation on underwriters to be modified to give due recognition to the fact that they do not enjoy their profits to the full when sums placed to reserve are swallowed up by claims, nevertheless the Twenty-first Schedule imposes certain restrictive conditions which must be observed. In the first place, arrangements must be made by Lloyd's for the institution of special reserve funds, and the scheme of the arrangements must not only be approved by the Commissioners of Inland Revenue but must also be certified by the Board of Trade as being in the public interest.

Although an arrangement may be instituted, it is not obligatory on an underwriter to take advantage of it. This is entirely optional; but even if he does so, he may nevertheless withdraw at any time. In this event, however, he will not be entitled to associate himself again with the scheme. An underwriter must signify his intention of becoming a party to the arrangement by giving a 'notice of adherence' to the Inspector of Taxes and to Lloyd's. Such a notice is first effective for the year of assessment subsequent to the fiscal year in which it is given.

As already mentioned, it is necessary under the arrangements to establish a special reserve fund, vested in trustees, the capital and income of which must be held for the benefit of the adhering underwriters. To this fund, the member has the right to transfer within six months (ex-

tended by concession to nine months) after the date on which the accounts of an underwriting year are closed, a limited sum out of his underwriting income. The amount is restricted to such a sum which, grossed up at the standard rate of income tax, is equivalent to the lesser of £5,000 or 35 per cent of the profits, computed on the basis of Case I, Schedule D, but including all investment income in any underwriting fund which the member is required to maintain. The original limit was £1,500 or 25 per cent, but this was increased to the figures mentioned by section 67 (1), Finance Act, 1952, and subsequently section 3, Finance (No. 2) Act, 1955, permitted a supplementary increase of £2,000 and 15 per cent, making a total of £7,000 and 50 per cent.

For reasons given below, it is expedient, however, to keep a separate record of this supplementary transfer. The gross payment to the special reserve fund is then treated, in calculating the underwriter's surtax liability, as an annual payment made by the underwriter in the year of assessment for which the particular year's profits are assessed. In the case of the commencing years, the first year of assessment to which the transfer is attributed is the third year. The consequence is that the surtax liability is thereby reduced. It should be noted that the amount transferred to the special reserve fund is, subject to the limitation referred to, entirely within the discretion of the underwriter.

As recourse is expected to be had to the special. reserve fund when claims give rise to a loss for any underwriting year, if the loss is incurred for any year after the first year for which a notice of adherence was given, there must be transferred out of the special reserve fund to the underwriter's premiums trust fund a sum which, grossed up at the standard rate of income tax, is equivalent to the loss. The amount will, of course, be limited to the capital available in the special reserve fund at the end of the year in which the loss arises. The amount thus withdrawn is treated as income for surtax of the year of assessment preceding the fiscal year for which the underwriting profits would have been assessed if there had been a profit. Thus, the application of amounts paid into the special reserve fund to cover subsequent losses will render them liable to the taxation from which they were previously exempt, and the fact that a notice of adherence is then no longer in force will not affect this result.

Bearing in mind that the underwriting loss itself will diminish the surtax liability, the ultimate effect of the scheme is to spread the tax, where losses are incurred, over a number of years by obviating the incidence of the higher rates of surtax. Where, therefore, the underwriter's other income for surtax is more or less unchanged and the rates of surtax remain constant, the net result will be favourable to the underwriter.

### Cessation of Notice of Adherence

A notice of adherence ceases to be effective on the happening of any of the following events:

- (i) termination of the business;
- (ii) death of the underwriter;
- (iii) withdrawal of the notice of adherence;
- (iv) cancellation of the arrangements by the Commissioners of Inland Revenue or the Board of Trade.

In the case of withdrawal, the last year to which the scheme will apply will be the year of assessment two years previous to the fiscal year in which the withdrawal is notified.

Should an underwriter resign as a member of Lloyd's and thus terminate his underwriting business, the available capital of the special reserve fund must be paid to him, this sum being assessable to surtax as if the payment were made at the date of cessation. This is irrespective of whether a notice of adherence is then in force. The consequence is that, if there has been a considerable accumulation in the special reserve fund the whole amount, grossed up at the standard rate of income tax, is added to the total income for surtax with possible devastating results. It is therefore a matter of prudence not to transfer annually more than would reasonably be expected to meet future losses. Furthermore, if the member's statutory income in any year is very low, expedience dictates that no transfer be made for that year, since the immediate surtax advantage would be negligible while a deferred liability to surtax may be created.

On the other hand, if cessation is occasioned by death of the member, the repayment of the accumulated special reserve fund represented by the transfers of £5,000 or 35 per cent of the annual profits (or such lesser sums) does not have to be included for surtax. This, however, is not the case in connection with the supplementary transfer of £2,000 or 15 per cent already referred to, since the special reserve fund comprised of these amounts are, even in the case of death, liable to surtax. Section 3, Finance (No. 2) Act, 1955, indicates the manner in which, where withdrawals for losses have been made from the

special reserve fund, the amounts attributable to the 35 per cent and 15 per cent are to be calculated.

### **Profits Tax**

To sum up, an underwriter can obtain the benefits of surtax relief on the limited amounts which he transfers to a special reserve fund so long as a notice of adherence is in force, but even after such notice ceases to be effective, surtax becomes payable on the fund being utilized to meet underwriting losses or repaid when he ceases to be an underwriter, other than by death, subject to the proviso regarding the supplementary transfer.

As an underwriter who adheres to the scheme is partially exempt from surtax on the underwriting profits, paragraph 10, Twenty-first Schedule, imposes profits tax. This tax is calculated on the underwriting profits, increased by all underwriting investment income (except franked investment income) but ignoring payments into or out of the special reserve fund. However, a deduction is allowed in all cases of £3,000 or 15 per cent of the profits, restricted to

£15,000 (as for a director-controlled company), so that the impact is not severe. In fact, there are probably many cases where this will eliminate the liability to profits tax. Losses carried forward are restricted to those of years for which a notice of adherence was in force. The profits tax arises for those underwriting years ending in a year of assessment for which there was a notice of adherence. Under section 67 (2), Finance Act, 1952, the profits tax, grossed up at the standard rate of income tax of the year of assessment based on the underwriting year, is allowed as a deduction for surtax.

In conclusion, it may be added that, if the syndicate undertakes insurance business in the United States of America, the underwriter is required to make a tax return in that country which must include all his other income arising in the U.S.A.

From the foregoing description of the impact of taxation on Lloyd's underwriters, it will be obvious that accountants acting on behalf of such clients are obliged to bear a special responsibility.

# The Profession Abroad

### III-FRANCE

by MARY E. MURPHY, Ph.D.(Lond.), C.P.A.

DURING the early part of this century, any person could establish himself as an expert comptable without training, qualification or experience. At that time, commercial pursuits were considered by educated French people to be unsuitable fields of activity. There were some accounting societies which had the character of mutual benefit societies, but one, founded in 1881, held examinations and awarded diplomas. This was the Société Académique de Comptabilité, whose members enjoyed no official privileges and whose diplomas were not recognized.

The French Courts employed people known as syndics de faillites on bankruptcies and liquidations. As specialists in this work, they acquired not only considerable skill but a quasi-public status. Their task was to examine and report on disputed accounts which had given rise to legal proceedings. Although regarded as experts comptables, they were not required to pass any examination before being entered on a list officially maintained by magistrates. By 1929, however, there were nineteen associations of accountants.

### **Protected Designation**

Since 1945, the title of expert comptable, meaning one who in his own name and in his own responsibility engages professionally in the preparation, auditing and interpretation of accounts, has been protected by law. Foreigners having resided in France for five years and having met other requirements, are eligible for this title. A comptable agréé is a person who in his own name and in his own responsibility engages professionally in the keeping, ordering, opening, checking, and supervising of accounts of all kinds.

Since the Second World War, L'Ordre des Experts Comptables et des Comptables Agréés has become the officially recognized body of French accountants. Its rules and regulations for examinations, membership and administration have been completely revised, and both classes of members are subject to stringent disciplinary codes. Candidates for membership must pass a preliminary examination, complete three years' apprenticeship with an expert comptable, pass a more advanced examination of the organization, and be at least 25 years of age. He is not permitted to advertise. To become a comptable agréé, one must pass a technical examination in accountancy, law and taxation, and be at least 22 years of age.

Members of the Ordre must practise independently or in association with members, and must not accept salaried employment. They must practice with the names of all partners listed. However, a firm may be incorporated as a limited company with a

capital of not less than 500,000 francs. At least three of the shareholders, holding a majority of the shares, must be members of the *Ordre* and must occupy the principal administrative positions in the company. A member of the *Ordre* must not employ more than ten salaried employees, but he may employ any number of apprentices who must be trained and remunerated. He is not permitted to engage a salaried employee without also employing one or more apprentices.

Both the preliminary and advanced examinations are composed of oral and written tests. The two principal training establishments for the profession are located in Paris: L'Ecole Nationale d'Organization Economique et Sociale (a private institution), and L'Institut de Technique Comptable (a Government-sponsored body under the sponsorship of Le Conservatoire des Arts et Métiers). The Paris Chamber of Commerce finances L'Ecole des Hautes Etudes Commerciales, which grants a degree equivalent to that of a university.

### **Auditing Requirements**

The public limited company - société anonyme must maintain certain books of account and prepare annual inventories containing lists of all assets and liabilities. The books and inventories must be stamped by a judge of the Tribunal of Commerce or by a mayor, and maintained for ten years. A company must hold a general meeting once a year at which the financial statements are submitted. The accounts must be audited. When a company intends to sell shares or debentures to the public, at least one of the auditors (commissaires aux comptes) must be chosen from a list drawn up by a special committee of the Court of Appeal. In general, the law contains no requirements as to their proficiency but, in practice, the commissaires of important companies are experts comptables. French law requires. that the auditor be independent. Individuals who have passed a special examination are recognized as commissaires of banks, life insurance companies and similar ventures. This category of practitioner forms a special group with a special disciplinary jurisdiction.

The certificate to be issued by the *commissaires* at the general meeting does not observe the same form as the certificate used on annual financial statements. It is a report which must contain an opinion on the correctness of each financial statement. An opinion on acts of management is not required but one on the distribution of proposed profits must be included.

In 1925, French law was altered to permit the organization of private limited companies. As one practitioner stated at the 1952 International Congress in London: "The role of the accountant in corporations is compulsory concerning his mandate as auditor and optional regarding the economic and accounting missions which are freely entrusted to the public accountant".

A standardized scheme of accounting (Plan General) was introduced in all French nationalized

industries in 1947. Although it was optional for other companies, it has been introduced in private industry as well. The standardized system uses a method of coding the ledger account by numbers based on a decimal system of working down from the ten basic classifications in the final accounts to which the primary numbers are given:

- (1) Permanent capital.
- (2) Permanent assets.
- (3) Stocks.
- (4) Third parties.
- (5) Financial accounts.
- (6) Expenditure accounts.
- (7) Income accounts.
- (8) Profit and loss accounts.
- (9) Industrial accounts.
- (10) Statistical accounts and data.

From 1945, a system of complementary depreciation arising from the revaluation of assets has operated in France. The maximum value of each revalued fixed asset is obtained by multiplying the cost or purchase price by one of the coefficients fixed by the Government department, the coefficient being the one corresponding to the year of acquisition of the asset in question. Yearly additions to the depreciation reserve are revalued by applying appropriate coefficients taken from the same schedule. The difference between the two above-mentioned accounts provides the net written-up value on which new sums for depreciation are based.

### Revaluation of Assets

Rules applicable to the revaluation of balance sheets were introduced by an Ordinance dated August 15th, 1945. At first, they applied only to the balance sheets for the financial year ending before January 1st, 1947, but the possibility of revaluation was extended to later periods. The plan had as its object the establishment of a national solidarity tax - designed to enable businesses subject to exceptionally heavy fiscal burdens to apply, free of tax, more substantial depreciation amounts than previously calculated. The revaluation is optional, with companies revaluing only if they find it profitable. They may limit the revaluation to certain assets, generally chosen from the following groups: fixed assets, both tangible and intangible, and the depreciation provided in the past on these assets; investments, including participations in other businesses and shares held in other companies; and balances receivable and payable in foreign currencies.

Revaluation, however, does not apply to accounts receivable and payable in francs or to inventories of stocks and unfinished goods. Share capital is not altered to the revaluation, unless a company decides to capitalize the revaluation reserve. This reserve for each asset is equal to the difference between the accounting value of the asset before and after revalua-

tion. The aim of the rule is to fix maximum values, but it does not preclude the use of values lower than the maximum. These fiscal provisions have been accompanied by others of an accounting nature, which include definitions and a form of balance sheet stimulated by the standard plan of accounts of 1947.

Some French accounting societies argue that operating results should be determined by sound accounting rules and that fiscal considerations should not be a part of accounting. They suggest that the general revaluation of balance sheets is probably desirable and possibly unavoidable.

The complexity of Governmental regulations affecting public accountancy has tended to retard the full development of the French profession. In 1954, for instance, there were only about 2,000 experts comptables practising as principals. At the present time, it is difficult to maintain a large accounting firm in France and even to convince the public of the professional standards and competence of auditors. However, deriving from further association with overseas accountants and general elevation of standards, the French profession should gradually enjoy greater recognition and public confidence.

## Weekly Notes

### CAMBRIDGE SUMMER COURSE

LAST year, for the first time, two summer courses were arranged by The Institute of Chartered Accountants in England and Wales, one at Oxford—where they have been held annually since 1947—and the other at Cambridge.

The formula, so successful in 1961, is being repeated this year, but on this occasion Cambridge has the honour of opening the 'season'. Nearly one hundred and fifty members, including intrepid Miss G. E. M. Dodsworth, F.C.A., of York, the sole representative of the Institute's lady members, will assemble next Wednesday evening at Emmanuel and Sidney Sussex Colleges.

Three papers are to be presented. The first, on Thursday morning, will be given by Mr David Williamson, F.C.A., on the subject of 'Insurance and the accountant'; on Friday, Mr D. O. Bailey, F.C.A., will address members on 'Taxation aspects of amalgamations and reconstructions', and on Saturday morning Mr R. D. S. Shrimpton, F.C.A., will present a paper on 'Service to management'. Group discussions have always held an important place in summer course programmes and at Cambridge the course will be divided into seven groups for the purpose of discussion after each address and for general discussion periods. The afternoons will be free for members to use as they wish for private study, mutual discussion or recreation, and among the arrangements made for these free sessions are a conducted tour of Cambridge, a visit to Spicers' stationery factory at Sawston, a visit to Ely Cathedral and a golf competition to be played over the course of the Gog-Magog Golf Club.

The President of the Institute, Mr P. F. Carpenter, F.C.A., will preside at the Guest Night Dinner on Saturday evening, when the guests will include Mr E. Welbourne, M.C., M.A., Master, Emmanuel College, Dr D. Thomson, M.A., Master, Sidney Sussex College, and Mr W. A. Barker, M.A., Headmaster, The Leys School.

### IRISH INSTITUTE'S EXAMINATIONS

UNDER the new syllabus of The Institute of Chartered Accountants in Ireland, five annual examinations replace the former Intermediate and Final. Examinations in each of the five parts were held in May and the results are now announced.

In Part V the First Place and the Incorporated Society Jubilee Prize were won by Mr D. A. K. McCabe, of Dublin, and Second Place was awarded jointly to Mr John Millar, of Newtownabbey, Co. Antrim, and Mr Michael Sythes, of Belfast.

In Part IV, Mr D. A. A. Fleetwood, of Dublin, won First Place and the Samuel Smyth Memorial Prize; Mr T. A. W. Patterson, of Belfast, won Second Place, and the Third Place was won by Mr N. W. M. May, of Holywood, Co. Down.

The First Place and the Arthur H. Muir Memorial Prize in Part III of the examinations was won by Mr G. A. Nixon, of Newtownards, Co. Down; Second Place was won by Mr G. C. Bland, of Belfast, and Third Place by Mr D. A. G. Murphy, of Mallow, Co. Cork.

Mr D. P. McCrossan, of Dublin, won First Place and the John Mackie Memorial Prize in Part II; Mr P. J. Hanlon of Dublin, won Second Place and Third Place was won by Mr C. S. Maybury, of Dublin. In Part I, Mr Brendan O'Brien, of Dublin, won First Place; Mr W. R. McDowell, of Armagh, Second Place, and Mr D. R. Mayberry, of Dublin, Third Place. The full results appear on other pages.

### LUNCHEON TO MR ALAN S. MACIVER

R ALAN S. MacIVER, C.B.E., M.C., B.A., who retires as Secretary of The Institute of Chartered Accountants in England and Wales in the autumn, was entertained to luncheon at the City Livery Club on Thursday of last week by the secretaries of professional bodies and other professional colleagues. During the luncheon Mr MacIver was presented with a set of onyx ashtrays.

Making the presentation, Mr C. G. Garratt-Holden, c.B.E., T.D., B.A., M.COM., Secretary of the Building Societies Association, referred to the high regard in which Mr •MacIver was held and

expressed the feeling of all those present when he said that Mr MacIver, with whom they had all been associated for so long, had proved to be one from whom guidance could always be obtained and who could be regarded as a friend.

In his reply, Mr MacIver expressed his appreciation of the presentation and of the cordial relations which he enjoyed with the secretaries of other professional bodies; he deeply valued the friendship of those whose guest he was honoured to be.

### Those present were:

Messrs W. G. Agnew, c.v.o. (Clerk of the Privy Council); H. A. L. Cockerell, B.A. (Secretary, Chartered Insurance Institute); Sir George Coldstream, K.C.B., Q.C. (Clerk of the Crown in Chancery, Lord Chancellor's Office); Messrs C. A. Evan-Jones, M.B.E. (Under-Secretary, The Institute of Chartered Accountants in England and Wales); Derek du Pré (Secretary, The Institute of Cost and Works Accountants); C. G. Garratt-Holden, C.B.E., T.D., B.A., M.COM. (Secretary, Building Societies Association); Sir Alexander Killick, C.B.E., D.S.O., M.C., M.A. (formerly Secretary of The Royal Institution of Chartered Surveyors); Messrs E. H. V. McDougall (Secretary, The Institute of Chartered Accountants of Scotland); C. D. Morley (Secretary to the Council, The Stock Exchange); W. Stuart Orr, B.A., LL.B., A.C.A. (Secretary, The Institute of Chartered Accountants in Ireland); J. F. Phillips, O.B.E., LL.M., F.C.I.S. (Secretary, The Chartered Institute of Secretaries); G. R. Ricketts, M.A. (Secretary, The Royal Institute of British Architects); and C. D. Spragg, C.B.E. (formerly Secretary of The Royal Institute of British Architects).

Others who were unavoidably absent, but who wished to be associated with the presentation were:

Rear-Admiral P. W. Burnett, C.B., D.S.O., D.S.C. (Secretary, The Royal Institution of Chartered Surveyors); Messrs L. F. Cheyney, O.B.E. (Secretary, The Institute of Municipal Treasurers and Accountants); H. Eason (Secretary, The Institute of Bankers); Sir Thomas Lund, C.B.E. (Secretary, The Law Society); and Mr F. C. Osbourn, M.B.E., B.A., LL.B., A.C.I.S. (Secretary, The Association of Certified and Corporate Accountants).



Mr C. G. Garratt-Holden (left) presenting the set of onyx ashtrays to Mr MacIver.



At the luncheon (left to right): Mr Garratt-Holden, Mr Derek du Pré, Mr W. Stuart Orr, Mr MacIver, Mr C. A. Evan-Jones, Sir Alexander Killick, and Mr C. D. Morley.

### NORTHERN IRELAND BUDGET

THE Northern Ireland Government is to issue a new Ulster Development Bond carrying interest at 5 per cent per annum. Announcing this when he presented his Budget in the Northern Ireland Commons recently, the Minister of Finance, Captain Terence O'Neill, said that proceeds of the issue would be available to speed development of the economy in all its aspects – factories, plant, harbours, trunk roads and the whole range of services which support a modern State.

Interest will be paid half-yearly without deduction of income tax, and the bonds will be repayable at the rate of £103 for each £100 of bonds if they are held for seven years. The 3 per cent premium will be free of United Kingdom income tax and surtax.

The Budget estimates that Northern Ireland's total revenue in 1962-63 will be £126,941,000 and the total expenditure on reserved and transferred services, £119,387,800. The Imperial Contribution (Northern Ireland's contribution towards United Kingdom expenditure on defence, foreign affairs and the national debt) has been provisionally assessed at £7½ million, leaving a surplus of £53,200.

The Minister announced two small changes in taxation. The exemption limit for estate duty is to be raised from £3,000 to £4,000, and rates payable on small estates of up to £6,000 will be reduced by r per cent. The changes will apply to deaths occurring on or after July 4th. A minor alteration is to be made in stamp duty by repealing the settlement duty, except in relation to unit trusts, and to remove an anomaly in case of unit trusts.

Dealing with the special consideration given to Northern Ireland's position when anti-inflationary measures were taken by the Chancellor of the Exchequer in his July Budget, Captain O'Neill said the proceeds in Northern Ireland of the surcharge on customs and excise duties were placed at the disposal of the Government and yielded £2,735,000.

## HIRE-PURCHASE COMPANY PRECEPTS

AN article by Mr P. J. Greaves, F.C.A., in the June issue of *Credit*, a quarterly review issued by the Finance Houses Association, pin-points the three essential factors to be noted when scrutinizing the published accounts of hire-purchase companies. The first of these is the amount of deferred revenue carried forward at the end of each year, expressed as a percentage of the gross amount receivable under hire-purchase and other instalment credit accounts. In the absence of any special circumstances, Mr Greaves expects the percentage to be not less than 10 and he states firmly that if a hire-purchase company carries

forward much less than 8 per cent of its gross receivables, he considers that it is not preparing its accounts on sound lines and that its future profits, in consequence, may be affected.

The second factor is the adequacy of the provision for bad and doubtful debts. Mr Greaves emphasizes that this can be done accurately only by examining and classifying all individual accounts and he sets down seven excellent rules to be followed in making a realistic assessment of the position.

Mr Greaves's third factor is the quality of the management. The virtual cessation of hire-purchase business during the last war caused a scarcity of experienced personnel but, until 1958, many companies were protected from their own innocence by the shortage of goods, inflationary conditions in general and by the various Hire-purchase Control Orders in operation. Under the present more open trading conditions, however, many companies have come to grief and it is significant that some of the companies to expand most rapidly are among the heaviest casualties - due, mainly, to lack of proper control. Mr Greaves insists that directors and executives of hire-purchase concerns must be constantly on the alert and must possess a scrupulous sense of individual responsibility for the policy and actions of their companies.

### MACHINE TOOL DIRECTORY

"HE development of the machine tool industry I in the United Kingdom from its inception nearly two hundred years ago down to the present day is outlined in a useful new directory compiled for private circulation by a firm of City stockbrokers. Understandably, the main emphasis is placed on the present-day structure and conditions of the industry and, in particular, how its output compares with those of other great industrial nations and how it will have to have an 'agonizing re-appraisal' of designs, performance and prices if Great Britain joins the Common Market. The compilers are nothing if not forthright in their comments and submissions and they recommend, among other things, a more intensive research programme, greater co-operation between makers and users of tools and the introduction of a more generous scale of Government capital allowances to encourage the continuous modernization of plant.

The greater part of the directory – which has in all 280 pages – is devoted to a series of financial analyses of the principal constituent companies in the machine tool industry and from these able summaries both investors and industrialists may derive much useful information. This is a pleasing example of the kind of specialized research at which the larger stockbroking firms so often excel and it is a pity that, being a private publication, the directory will not have the extended readership it certainly merits.

## Tales of a Tax Man

by HAROLD E. COX

THE FARMER AND THE INSPECTOR

Y telephone rang. 'There's a Mr Williams asking Mto see the head man. He won't tell me what he wants; he insists he must see the head one!' This was from the inquiry room in the tax office where I was the District Inspector. 'All right, please get his papers

and bring him up.'

A few minutes later Mr Williams was shown into my room and into my life. He was a short, slightlybuilt man, dressed completely in black - 'bible-black' Dylan Thomas has it. On his head a buttoned black cap with an outsize peak overhanging his brows like a visor. Black overcoat almost reaching to the tops of his black, clump-soled boots. Underneath, a black suit with the coat buttoned up to the knot of his black tie. I asked him to sit down and tell me his troubles. His Christian name was John and so we'll call him John. It seems too remote and unfriendly to refer to him as Mr Williams.

'I am not entitled to pay income tax.' His voice was surprisingly mellow. 'There's no sense in it at all.' He threw down on to my table a crushed handful of papers. I sorted them and found that John had been hoarding them for many months. 'You've seriously neglected these letters and demand notes.'

John sat bolt upright on the edge of his chair. He dismissed the whole thing with an abrupt wave of the hand. 'I don't make any profits on my farm - only losses. I don't know what they're bothering about

income tax for.'

'But', I submitted tentatively, 'farmers do manage to keep alive and bring up families. They couldn't do this on losses. Have you kept any books?'

'Books! What for!'

'Well - how can you show me that your farm is making losses; I must have some evidence.' I went on to explain that he should have filled up a tax. return; he should have appealed against his assessment within twenty-one days; he should have, etc., etc. I knew this was mere thistle-fluff so far as John was concerned, but I had to try to impress him. I went on. 'Other farmers have to do these. . . .

'Other farmers' - John stopped my lecture -'haven't had foot and mouth like me.' He halted so I encouraged him to talk. What followed made the plagues of Egypt seem like a coffee morning in the

vicarage gardens.

John had lost all his sheep from foot and mouth disease and his pigs from swine fever. Some of his cows had mastitis, some aborted, the rest went dry. He had bought a young bull to cheer them up but John's farm reduced him to impotent senility in about three days. Once he had two horses; one caught

his foot in a rabbit-hole and had to be destroyed - the other ripped his belly on some barbed-wire and never recovered. His wife had some chickens but they all succumbed to fowl-pest.

I was almost prostrate but I managed to ask: "Tell me, then, when did all this happen?'

'Since I've been farming - of course.'

'How long is that?'

'Well - now - let me think a moment. My father died about forty years back, then my mother ran the farm with us boys - working for nothing, of course. Then she died and the farm came to me. Let me see,

that would be about thirty-three years ago.'

I became the official once more. 'Look Mr Williams, I am prepared to stretch a point or two in order to help you but you must do as I ask, or pay the tax.' John's eyes saddened. 'Pay fi-fty-one pounds four-teen shill-ings?' He gave each syllable its full value. There followed several seconds withdrawal and then: 'All right, I am ready to help you.' I asked him to bring me all his bank sheets, Milk Marketing Board statements, mart receipts, etc. I repeated as much of this as I could in my book-fresh Welsh. He was to call to see me the following Tuesday without fail.

John did so, again looking like an escapee from an old-time processional funeral. 'Have you brought everything I asked for, Mr Williams?' 'Yes,' he said, but he made no move to hand anything to me. 'May

I have them please?'

A blackened roll of papers was handed to me and I opened it out. My eye was caught by the red figures in the bank account as I turned over the dozen or so sheets. The account had been frequently overdrawn and I had a guilty feeling I had doubted him without justification. Then I looked more closely and discovered John was trying another subterfuge. The sheets were for 1935 and 1936; it was now 1948! Some of the bills were nine and ten years old!

There was an appealing look in his eyes: 'There was no profits, Inspector; it's there plain to see.' I had to tackle John quite firmly. I made it clear I could waste no more time trying to help him. He would have to pay that fif-ty-one pounds four-teen shill-ings and

I gave each syllable full value.

The following Monday morning John called again. "This is your last chance, Mr Williams. Have you

brought all your papers this time?'

'Well, it's like this - you see' ... John got up, brought his chair around my table and placed it close alongside mine. I waited. He put his hand carefully into his overcoat pocket and brought out an egg, which he placed, quite slowly, on the table. I looked on silently. He did the same again. There were now two eggs but I made no comment. John then repeated the operation with greater deliberation, and, as he was gently and furtively extracting the third egg from out the depths of his pocket he leaned over and whispered confidentially, 'I help you, Mr Cox you help me?' Three eggs equal fifty-one pounds fourteen shillings!

The rest of the story is routine and humdrum.

# Finance and Commerce

### Mecca

THIS week's reprint features the accounts of Mecca Ltd presented in the original in novel—even startling—form. The name hardly needs introduction. Whether it is catering or cafeterias, bingo or beauty competitions, dancing or ice skating, or social recreation centres with the facilities for a 'little flutter', Mecca is decidedly 'in the business'. And there is no sitting still: new establishments are opened; others taken over and given the Mecca treatment; local theatres are acquired for transformation and use in accord with the popular trend.

This year, with profits at over a million for the first time, the accounts are tucked away at the end of what might be described as the Mecca handbook – a 'flash' affair, pocket-size with spiral wire binding, profusely illustrated with Mecca scenes in colour as well as black and white, including 'Miss World 1961'.

In the various sections, catering, dancing, etc., each establishment is identified with address and phone number. New branches under construction are listed, including the Empire, Leicester Square, which should be opened by the end of this year or early next.

Shareholders are welcomed in their hundreds to the annual meeting; this year's was at the Hammersmith Palais on June 28th. Some might call it a 'romp', but it was all good fun combining 'the business of the meeting' with a social and entertainment element.

### Depreciation

With these accounts is introduced a new basis for depreciation. Negotiations have been concluded with the Revenue as a consequence of which a more favourable basis for the taxation treatment of depreciation of furniture, fittings and equipment has been adopted with effect from January 1st, 1959. The accounting treatment of these assets has therefore been changed to bring it into conformity with the basis now adopted for taxation purposes. Hitherto, it has been the practice to charge against revenue each year, the expenditure incurred on renewals, but for 1961 a depreciation provision based on a twenty-year life has taken the place of such expendi-

MECCA LTD AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the YEAR ENDED 31st DECEMBER, 1961

TRADING PROFIT FOR YEAR:	£	£	£ 1,092,873	, t	£ 817,987
Add: Deposit Interest Received, less Bank Interest			41,650		61,430
Deduct: Amortisation of Leaseholds (not allowable for taxation purposes)  Depreciation of Furniture, Fittings, Equipment and Motor Vehicles (see Note 5)  Debenture Interest  Emoluments of Directors of Mecca Limited: Fees  Management Services	3,570 40,894	35,589 106,636 83,900	1,134,523	30,223 10,307 84,450	879,417
From Subisidary Company Past Directors' Pensions	1,000	45,764	271,889	32,534	157,514
PROFIT FOR YEAR SUBJECT TO TAXATION:			862,634		721,903
Provision for Taxation based on Profit of the Year: Income Tax Profits Tax		352,034 122,791		291,150 89,160	
Less: Over-Provision Previous Years	15,057 58,849	73,906	400,919	380,310	349,958
ALTE TRANSPORTED TO MAN AREA TAXABLE				1	
NET TRADING PROFIT FOR YEAR AFTER TAXATION			461,715	'	371,945
Deduct: Amount belonging to Minority Interests	Ì		5,232		5,412
Add: Development Expenditure on Empire, Leicester Square, Capitalised			456,483 13,200		366,533
BALANCE OF GROUP PROFIT ATTRIBUTABLE TO MECCA LTD			469,683	- Indiana in the second	366,533
DIVIDENDS PAID OR PROPOSED:			,		
Mecca Limited as shown in Directors' Report			330,929		279,683
AMOUNT RETAINED OUT OF PROFIT FOR THE YEAR:					
In Subsidiary Companies' Accounts		51,853 86,901		2,643 84,207	
			£138,754		£86,850

ture, which has been capitalized. It is intended to continue this practice in future years.

A note explains that as a result of this change in basis, the 1961 trading profits, before tax, has borne an increased charge of £58,924, equivalent to

£27,621 net after taxation.

There has been charged against revenue surplus a net amount of £35,647, representing additional depreciation less the applicable taxation relief, in respect of the transitional period from January 1st, 1959, to December 31st, 1960. In addition, £97,295 written off furniture, fittings, etc., has been charged against surplus on revaluation of fixed assets.

### Early Days

An interesting chapter in the 'handbook' is a brief history of Mecca development in its seventy-seven years from 1884; most of it really from 1921 onwards. Some of the more elderly members of the profession may remember the pre-1914. Ye Mecca Smoking Cafés in the City of London. That business evolved from the manufacture of coffee roasting and grinding machines for the sale of coffee to the public, and by 1914 there were thirty-two cafés for coffee, cigars and dominoes – for men. 'No women came into these cafés'. It was really the last of the 'coffee-house era'

in the City from the earlier days of which has emerged Lloyd's and the London Stock Exchange.

Mr C. L. Heimann, one of the present joint chairmen, joined the company in 1924 with his late wife as manager and manageress in charge of the catering at the Poeple's Palace in the Mile End Road. Their joint salary was £8 a week plus 10 per cent of any branch profit.

Mr Heimann linked up with Mr Alan B. Fairley, the other joint chairman, in 1935 in a partnership to open dance halls throughout the country, the first being the Locarno in Glasgow. The Heimann-Fairley dance hall group merged with Mecca in 1947 – and the rest is summed up in the present £8 million balance sheet.

### The Annual Meeting

Lest any take umbrage at the use of the word 'romp' in connection with the annual meeting, let it be stated that Mecca's meeting, in its way, is one of the most business-like in the company world. For well over an hour, the two joint chairmen and the two managing directors told shareholders how things were going; with bingo, it was said, 'we walked into success from the word go'. There were 3,571 functions last year from weddings to the Law Society's gathering at

## MECCA LTD AND ITS SUBSIDIARY COMPANIES CONSOLIDATED BALANCE SHEET as at 31st DECEMBER, 1961

								<del> </del>	
CAPITAL E	MPLOYED					£ 19	61 €	ا ج	960 €
SHARE CAPITAL AND RESERVES: Issued Share Capital of Mecca Limited (Note I Capital Reserves: (a) Share Premium Account (b) Surplus on Revaluation of Surplus (Unappropriated Profit) (Note 4)	(Note 2)	 (Note 3)			:: :: ::	2,705,754 1,820,084 1,069,764 558,785		2,495,606 1,462,482 486,323 455,678	-
Total Interest of Mecca Limited Shareholde OUTSIDE SHAREHOLDERS' INTEREST	irs 'IN SUBSID	IÄRIES	:		::	•	6,154,387 58,859	, -	4,900,089 59,658
LOAN CAPITAL:  5} per cent. First Mortgage Debenture Stock Less: Redeemed and Cancelled	(1976-85) 	::	:: ::	::	::	480,000 15,000		500,000 20,000	
5# per cent. First Mortgage Debenture Stock	(1980–85)					465,000 1,000,000	1,465,000	480,000 1,000,000	1,480,000
DEFERRED LIABILITY: Future Taxation (in	cluding income	Tax 1962	2/3)	••	••		336,879		267,647
•							£8,015,125		£6,707,394
EMPLOYMENT	OF CAPITA	L							
FIXED ASSETS (Note 5)	••	••		••	[		9,306,160		6,116,085
INVESTMENTS: Trade Leasehold Redemption Policy	:: ::	::	:: ::	::	::	681 5,032	5,713	681 4,574	5,255
CURRENT ASSETS: Stocks and Stores at Cost Sundry Debtors (less Provision for Doubtful E Short Term Deposits Bank Balances and Cash	Debts)		•• ••	::	::	163,950 527,801 1,223,300 32,547	1,947,598	129,946 399,220 1,275,000 187,504	1,991,670 8,113,010
Less: CURRENT LIABILITIES AND PR Sundry Creditors and Accrued Liabilities Current Taxation (including Income Tax 19; Proposed Dividend (less Income Tax) on Or Dividends Payable to Minority Shareholders Bank Overdraft	61/2) dinary and "A"	:: IANN AIRLEY	ry Sharès Directo		:::::	995,788 391,669 207,725 6,030 1,643,134	3,244,346 £8,015,125	880,176 357,335 162,604 5,501	1,405,616 £6,707,394

Norwich; seventy bands under contract; no teen-age problem at Mecca Halls. The bank debt is mainly in connection with the Mecca reconstruction of the Empire, Leicester Square, where it is hoped to hold next year's annual meeting. The board has a profit and loss sheet for every branch every week. These are a few of the points which emerged. There were no set speeches – and none that seemed prepared. Just a 'get together' of board, shareholders and guests.

Mr Heimann paid a special tribute to Mr John H. Senior, F.C.A. He was the only 'outsider' on the board in the sense that all the other directors were Mecca specialists: some caterers, some entertainment executives, with the more senior having the widest Mecca experience. Mr Senior's usefulness, apart from his professional knowledge, said Mr Heimann, was that he was an outsider; it was this 'outside view' which he brought to the board which was something the others hadn't got.

It was almost inevitable that the question of voting rights for the 'A' shares should be raised by a shareholder. Mr Heimann's attitude was co-operative. It was, he said, a matter for negotiation; with an implication that it was for voters and non-voters to come to terms and that he would do his best to bring the two sections together.

### Novel Bonus'

MR H. Scott Thompson, F.C.A., chairman of Mount Charlotte Investments Ltd, has hit upon a novel way of introducing shareholders to the hotels that have come into the group through the acquisition, as at January 1st, 1961, of Nuthalls (Caterers) Ltd. The hotels are in the Channel Islands, Wales, Devon and Cornwall.

With this year's report and accounts an invitation is conveyed to shareholders to stay, with a guest, at any of the hotels between September 14th, 1962, and March 31st, 1963. Presentation of the invitation card when the bill comes to be settled gives the shareholder the benefit of two nights (accommodation and breakfast) from the total due.

Before its Nuthall acquisition, the company (once a mining concern in Australia) was known for its catering enterprises under the name of Bettafoods. Bettafoods restaurants will be known to readers in the City of London, and previous reports have contained an invitation to shareholders and guests to accept the company's hospitality at its establishments.

Not all businesses can provide such 'bonuses' for shareholders; not all shareholders can accept them when offered. But despite the limitations, there is much to be said for this fostering of shareholder relations.

## MECCA LTD BALANCE SHEET as at 31st DECEMBER, 1961

	C	APIT	AL EI	1PLO	YED						19	61	15	760
SHARE CAPITAL AND	05650	VEC.									£	£	£	£
Issued Share Capital of Mec Capital Reserves: (a) Share (b) Surplus Surplus (Unappropriated Pa	ca Limi Premiu Is on Re	ited (N ım Acc evaluat	ount ()	Note 2	) Assets	(Nate	3)		::		2,705,754 1,820,084 1,069,764 475,335	•	2,495,606 1,462,482 486,323 424,081	,
Total Interest of Mecca Li	mited	Share	holdei	rs				••			5	6,070,937		4,868,492
LOAN CAPITAL: 5½ per cent. First Mortgage Less: Redeemed and Cancel	Deben led	ture St		976–85 ••		::	::	::	::	::	480,000 15,000		500,000 20,000	
5½ per cent. First Mortgage	Deben	iture S	tock (i	980-85	)		. • •				465,000 1,000,000	1.465.000	480,000 1,000,000	1,480,000
DEFERRED LIABILITY: F	uture T	axatio	n (inch	iding l	rcome	Tax I	962/3)	. ••				317,381		257,250
•												£7,853,318		£6,605,742
	EMPL	MYO.	ENT	OF C	APIT	AL:						8,306,113		5,971,715
FIXED ASSETS (Note 5)	••	••	••	••	••	••	••	••	••			0,300,113		2,771,712
INVESTMENTS: Trade Shares in Subsidiary Compa after giving effect to Revo	nies on aluatior	basis o	f Net T xed As	angible sets	e Ässe	ts ther	eof at d	ates of	acquisi	tion,	681 892,360	893,041	681 47,968	48,649
CURRENT ASSETS: Stocks and Stores at Cost Sundry Debtors (less Provis Subsidiary Companies (inclu Short Term Deposits Bank Balances and Cash	sion for uding D	Doub lividen	tful De ds Acc	ebts) rued)	**	:.	**	••	::	••	143,775 504,049 7,236 1,200,000 31,520	1,886,580	116,363 387,039 11,474 1,275,000 179,665	1,969,541
	ILITIF				IONS	:: ::	::			::	934,891 342,474	11,085,734	856,030 345,115	7,989,905
Less CURRENT LIAE Sundry Creditors and a Current Taxation (incl	uding Ir			61/2)	• •						49,226			
Sundry Creditors and	uding Ir	ncome	Tax 19	rdinary C. L.	HEIN	'A'' Or	٠:	Shares Director	••	::	207,725 1,698,100	3,232,416	20,414 162,604	1,384,163

### MECCA LTD

#### NOTES ON THE ACCOUNTS

Þ	Note I. SHARE CAPITAL OF M	ECCA LIM	IITED		Note 2. SHARE PREMIUM ACCOUNT		£
	<del>-</del> . · · ·	Authorised	1961 Issued and Fully Paid	1960 Issued and Fully Paid	Balance 31st December, 1960 On Issue of additional £210,148 "A" Ordinary Capit	 al	1,462,482 357,602
	5 per cent. First Cumulative Preference Shares of £1 each	£ 145,000	£ 145,000	£ 145,000	Balance 31st December, 1961	••	£1,820,084
	5 per cent. Second Cumulative Prefe ence Shares of £1 each	300,000	138,302	138,302			
	Ordinary Shares of 5s. each	350,000	350,000	350,000			
	"A" Ordinary Shares of 5s. each	2,205,000	2,072,452	1,862,304	Note 4. SURPLUS (UNAPPROPRIATED PR	OFIT)	
		£3,000,000	£2,705,754	£2,495,606	l P	lecca Ltd.	Group
				,	Balances at 31st December, 1960 including Special Reserve £22,000	£ 424,081	£ 455,678
	Note 3. SURPLUS ON REVALU	ATION OI	F FIXED A	SSETS £	Deduct: Additional Depreciation, less Taxation Relief applicable thereto, resulting from change in		
	Balances at 31st December, 1960  Add: Surpluses arising in 1961			486,323 680,736	basis of accounting treatment of Furniture, Fittings and Equipment referred to in Note 5	35,647	35,647
	Add: Surpluses arising in 1961	•• ••	• ••			388,434	420,031
7	Deduct: Amount written off Furniture,	Fittings etc. ;	per Note 5	1,167,059 97,295	Add: Surplus for 1961 as shown in Profit and Loss	86,901	138,754
				£1,069,764		£475,335	£558,785

Note 5. FIXED ASSETS	3ls	t December,	1961	31st	December,	1960
	At Cost or Valuation Less Sales	Aggregate Depreciation to Date	Net	At Cost or Valuation Less Sales	Aggrega Depreciation to Date	
(a) MECCA LIMITED	£	£	£	£	£	£
Freehold Properties as professionally valued, or at Cost	5,003,549		5,003,549	3,332,059		3,332,059
Leasehold Properties at Net Book Value 31/12/47, or Cost	1,698,032	203,339	1,494,693	1,272,364	168,374	1,103,990
Furniture, Fittings and Equipment as valued by the Directors on 31st December, 1953, plus Additions since at Cost:						
(i) Subject to Depreciation Provisions	1,692,289	191,891	1,500,398	٠	,	-
(ii) Renewals Charged to Revenue	285,649		285,649	1,516,347		1,516,347
Motor Vehicles at Cost	43,403	21,579	21,824	39,453	20,134	19,319
	£8,722,922	£416,809	£8,306,113	£6,160,223	£188,508	£5,971,715
(b) GROUP	–					
Freehold Properties as professionally valued, or at Cost	5,857,530	******	5,857,530	3,416,913		3,416,913
Leasehold Properties at Net Book Value 31/12/47, or Cost	1,784,328	245,134	1,539,194	1,294,164	177,048	1,117,116
Furniture, Fittings and Equipment as valued by the Directors on 31st December, 1953, plus Additions since at Cost:			•			
(i) Subject to Depreciation Provisions	1,826,537	230,633	1,595,904			_
(ii) Renewals Charged to Revenue	290,668		290,668	1,561,797		1,561,797
Motor Vehicles at Cost	49,902	27,038	22,864	44,393	24,134	20,259
	£9,808,965	£502,805	£9,306,160	£6,317,267	£201,182	£6,116,085

Since 31st December, 1960, negotiations have been concluded with H.M. Inspector of Taxes as a consequence of which a more favourable basis for the taxation treatment of depreciation of Furniture, Fittings and Equipment has been adopted with effect from 1st January, 1959.

The accounting treatment of these assets has therefore been changed to bring it into conformity with the basis now adopted for taxation purposes. Hitherto it has been the practice to charge against revenue each year, the expenditure incurred on renewals, but for 1961 a depreciation provision based on agreementy year life has taken the place of such expenditure, which has been capitalised; it is intended to continue this practice in future years.

As a result of this change in basis:

- (a) The trading profit of 1961, before taxation, has borne an increased charge of £58,924, equivalent to £27,621 net, after taxation.
- (b) There has been charged against Revenue Surplus a net amount of £35,647, representing additional depreciation, less taxation relief applicable thereto, in respect of the transitional period from 1st January, 1959 to 31st December, 1960; in addition £97,295 written off Furniture, Fittings, etc., has been charged against Surplus on Revaluation of Fixed Assets.

### Note 6

Outstanding Capital Commitments of Mecca Ltd. amounted to approximately £375,000.

### Note 7.

Under arrangements in force with its Bankers, Mecca Ltd. is contingently liable to allow the balance on its Accounts to be applied against overdrafts to any other Member of the Group which is a party to these arrangements.

### CITY NOTES

TANCIES rather than facts provide the basis for the price rise in the two outside ends of the stockmarkets – gilt-edged and gold shares. In the former case the theory is that if the Government is to indulge in a pre-election bout of economic pump priming on 1958–59 lines, then considerably lower interest rates than those dictated by the current  $4\frac{1}{2}$  per cent level of Bank rate may play a major part.

That view has been fostered by suggestions that lower house mortgage rates are considered to be a vital pre-election factor. Although building society rates are not necessarily tied to Bank rate there is a long-term and, to an extent, a psychological connection.

Further than that there is the view that Common Market membership may be accompanied by a move on to a Common Market interest rate basis.

As for gold shares, the higher United States gold price theory is still uppermost in the gold share buyer's calculations. The United States is acknowledged to be dead set against raising the gold price since that would be tantamount to devaluing the dollar.

The international liquidity theorists none the less argue that the United States could be persuaded into raising the gold price if the move could be disguised as American generosity towards the restricted liquidity of the western world in general. Hope springs eternal in the gold share buyer's contract notes and the hope is currently being pinned on next September's I.M.F. meetings.

### RATES AND PRICES

Closing prices, Wednesday July 11th, 1962

Tax Reserve Certificates: interest rate (28.4.62) 21/2 %

AUA AUGUATO	cortimentes.	microsc race (2)	0402) 24/0							
Bank Rate										
Oct. 27, 1960	51%	Nov. 2, 1961	6%							
Dec. 8, 1960	5%	Mar. 8, 1962	51/2%							
July 26, 1961	7%	Mar. 22, 1962	5%							
Oct. 5, 1961	$6\frac{1}{2}\%$	April 26, 1962	41/2 %							
3,	- , ,		72 70							
0	Treasu		0.101							
May 4 £4	18 9.72d%	June 8 £3								
May 11 £3	19s 8·71d%	June 15 £3	14s 4.01d%							
May 18 £3	17s 1.04d%	June 22 £3	16s 11.8d%							
May 25 £3		June 29 £3								
June 1 £3	15s 7·98d%	July 6 £3	18s 0.63d%							
	Money Rates									
Day to day	21-31%	Bank Bills								
7 days	23 37%	2 months	4 16-418%							
Fine Trade Bill		3 months	4 10 -4 16							
3 months	5 <del>1</del> -6%	4 months	4 18 -48 %							
4 months	5½-6%	6 months	416-416%							
6 months	$5\frac{2}{4}-6\frac{7}{2}\%$	O IIIQIIIII	4 16 4 16 /0							
o months	54 02 /0									
	Foreign E	xchanges								
New York	2·80 <del>]</del>	Frankfurt	11.17							
Montreal	3.02	Milan	1740							
Amsterdam	10.07	Oslo	20.03							
Brussels	$139.47\frac{1}{2}$	Paris	13.74							
Copenhagen	19.37 <del>§</del>	Zürich	12.10							
. 0		4. 4	-							
C 1 0/	Gilt-e	•	0 / 13							
Consols 4%	64 <del>]]}</del>	Funding 3% 59 Savings 3% 60	)–69 86 <del>1</del> }							
Consols 2½%	421	Savings 3% 60	-70 84 <del>1</del> €							
Convision 51%		Savings 3% 65	-75 74 <del>8</del>							
Conversion 5%		Savings 2½% 6.	4-67 88 <del>1</del>							
Conversion 3 2	% 1969 89 <del>1}</del>	Treas'ry 5½% 2	008-12 93 <del>8</del>							
Conversion 31	% 58 <del>1</del> €	Treas'ry 5½% 2 Treasury 5% 8	6-89 85 🔏							
Exchequer 51%	6 1966 100 <del>%</del>	Treasury 3½%	77-80 731							
Funding 5½%		Treasury 3½%	79-81 717							
Funding 4% 6	o–go 8g <del>l</del>	Treasury 21%	421							
Funding 3½%	99-04 62 <del>\$</del>	Victory 4%	96 16							
Funding 3% 6	6–68 87 8	War Loan 31%								
	/ 18	20011 32/0	3/16							

## Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

### **Professional Fees**

SIR, - I think your correspondent, Mr Bennington (July 7th issue), has misunderstood the President of the Scottish Institute. He was not, I am sure, asking for any 'preferential treatment', but was reminding chartered accountants in industry that they are among the few people through whom shareholders

can get any idea of the volume of work and the responsibility involved in the audit. The President did the members in industry the courtesy of tacitly assuming that they knew the difference between the ethical considerations that arise when arranging a fair fee for an audit and the purchasing of coals or cabbages. Your correspondent apparently does not.

It is a lamentable fact, sir, that many people in industry do not yet understand that the cheapest auditor is often the most expensive. A member of the Institute has no excuse for similar ignorance. Happily most of our members who are officials of public companies do not hold Mr Bennington's views and have a high sense of their duty both to their companies and to their profession.

Yours faithfully,

D. E. F. GREEN, M.B.E., F.C.A.

London EC2.

SIR, -I was both appalled and dismayed, to say the least, to read the letter headed 'Professional fees' in your last issue.

Why should there be need for anyone to give us preferential treatment? Surely we should live by right, not on sufferance, and the client should pay our fees gratefully, providing he is getting prompt and efficient service.

I cannot understand the apparent indifference in the profession to this all-important question of fees. I think that a committee of, say, ten practitioners should be set up from areas all over the country, comprised almost wholly of representatives of medium-sized firms and small firms, which must constitute the great majority of the practising members of the Institute, and they should sit full-time for a period of six months (or longer if necessary) in order to formulate a plan to put the profession on a modern basis; the other members of the profession should pay an increased subscription in order to recompense the members of this committee adequately for their work.

Unless we get adequate fees we cannot get and keep efficient staff or the machinery required for modern working, or properly laid out offices and the fittings, etc., in connection therewith; and something must break down in the near future unless this question is firmly and soundly resolved. I regard the position as serious and something really drastic will have to be done about it.

In line with the question of adequate fees there must, of course, be the ability to provide prompt and adequate service in return.

Yours faithfully, ISAAC BARTFIELD, F.C.A.

Leeds.

[It may be as well to repeat the remarks of the President of the Scottish Institute, as reported in our issue of June 30th (page 837). The President said:

'I would ask our own members employed in industry and commerce, who are so often involved in considering fees charged by practising members to bear in mind that they should be willing to pay rates for outside professional accounting services which would enable the practising accountant to employ staff at the same level of remuneration as these members in industry are obviously willing to pay their full-time assistants.'

It seems to us that there is no suggestion of 'preferential treatment' in these words. – Editor.]

## Taxation Case

A full report of the case summarized in this column will be published, with Notes on the Judgment, in the 'Annotated Tax Cases'.

### Binns Ltd v. C.I.R.

In the High Court of Justice (Chancery Division)
June 8th, 1962

(Before Mr Justice PENNYCUICK)

Profits tax – Gross relevant distribution – Dividend for specific period – Company becoming subsidiary within the period – Grouping notice for period – Direction splitting accounting period into two chargeable accounting periods – Whether dividend apportionable – Finance Act, 1937, section 22 – Finance Act, 1947, sections 35 (2), 37, 38 – Finance Act, 1956, section 30.

The company, which carried on business as a draper, became a wholly-owned subsidiary of House of Fraser Ltd on April 28th, 1953. The accounting periods of the company ended on January 26th each year. On January 6th, 1954, House of Fraser Ltd gave a grouping notice under section 22 of the Finance Act, 1937, in relation to the appellant for the chargeable accounting period ending on January 26th, 1954, and for all subsequent chargeable accounting periods.

On January 27th, 1954, the appellant paid to House of Fraser Ltd an ordinary dividend of £320,000 gross, and the dividend was declared as an interim dividend

for the period from April 28th, 1953, to January 26th, 1954. On October 28th, 1958, the Commissioners of Inland Revenue gave a direction, under section 38 of the Finance Act, 1947, that the accounting period of twelve months to January 26th, 1954, should not be a chargeable accounting period of the appellant, but should be divided into two chargeable accounting periods at April 28th, 1953.

It was contended on behalf of the appellant that as the grouping notice operated from April 28th, 1953, and having regard to the period for which the dividend was declared, the dividend of £320,000 should be ignored in computing gross relevant distributions of the appellant for profits tax purposes. It was contended on behalf of the respondents that, pursuant to section 37 of the Finance Act, 1947, the gross relevant distribution in question had to be computed in relation to the appellant's accounting period ended January 26th, 1954, and apportioned on a time basis over the two chargeable accounting periods comprised therein, with the result that the earlier portion attracted profits tax. The Special Commissioners decided in favour of the respondents.

Held: the Special Commissioners' decision was correct.

## THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

### SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, July 4th, 1962, at the Hall of the Institute, Moorgate Place, London EC2, there were present:

Mr Percy F. Carpenter, President, in the chair; Mr Robert P. Winter, C.B.E., M.C., Vice-President; Messrs J. Ainsworth, C.B.E., J. F. Allan, C. Percy Barrowcliff, W. L. Barrows, T. A. Hamilton Baynes, H. A. Benson, C.B.E., Sir William Carrington, Messrs G. T. E. Chamberlain, D. A. Clarke, J. Clayton, C. Croxton-Smith, E. Hay Davison, W. G. Densem, S. Dixon, W. W. Fea, Sir Harold Gillett, Bt, M.C., Messrs J. Godfrey, G. G. G. Goult, L. C. Hawkins, J. S. Heaton, J. A. Jackson, H. O. Johnson, Sir William Lawson, C.B.E., Messrs H. L. Layton, R. B. Leech, M.B.E., E. N. Macdonald, D.F.C., R. McNeil, J. H. Mann, M.B.E., R. P. Matthews, W. Bertram Nelson, C.B.E., W. E. Parker, C.B.E., S. J. Pears, C. U. Peat, M.C., F. E. Price, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs J. D. Russell, R. G. Slack, D. Steele, J. E. Talbot, A. G. Thomas, A. H. Walton, V. Walton, F. J. Weeks, M. Wheatley Jones, E. F. G. Whinney, J. C. Montgomery Williams, E. K. Wright, Sir Richard Yeabsley, C.B.E.

### **Appointments to Committees**

The Council has appointed Mr Paul F. Granger to the Disciplinary Committee.

### Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the following chairmen and vice-chairmen of committees for the ensuing year:

### **Applications**

Chairman, Mr R. McNeil; Vice-Chairman, Mr R. B. Leech.

### Articled Clerks

Chairman, Mr M. Wheatley Jones; Vice-Chairman, Mr T. A. Hamilton Baynes.

### District Societies

Chairman, Mr C. Croxton-Smith; Vice-Chairman, Mr J. C. Montgomery Williams.

### Examination

Chairman, Mr W. G. Densem; Vice-Chairman, Mr J. A. Jackson.

### Finance

Chairman, Sir Harold Gillett; Vice-Chairman, Mr D. A. Clarke.

### General Purposes

Chairman, Mr W. L. Barrows; Vice-Chairman, Mr P. F. Granger.

### Investigation

Chairman, Mr S. J. Pears; Vice-Chairman, Mr J. E. Talbot.

### Parliamentary and Law

Chairman, Mr W. E. Parker; Vice-Chairman, Mr J. E. Talbot.

### Public Relations

Chairman, Sir Harold Gillett; Vice-Chairman, Mr E. K. Wright.

### Report of the Company Law Committee

The Council has requested the Taxation and Research Committee to consider the report of the Company Law Committee and to make a report thereon for consideration by the Parliamentary and Law Committee. Any member who wishes to make any comments on the report of the Company Law Committee is invited to send them to the Secretary of the Institute for consideration by the Taxation and Research Committee.

### The Small Practitioner Inquiry

In the annual report for 1961 it was reported that at the request of the President district societies had undertaken an inquiry into the problems and difficulties of the small practitioner and that district societies, branches and groups had held meetings and the views expressed were being examined in committee and would in due course be considered by the Council.

The extent of the interest which has been evoked among members may be judged from the fact that the submissions received have exceeded 200 pages of evidence and proposals. These submissions related to a variety of matters, some of which appeared more frequently than others among the representations. The District Societies Committee reported to the Council that it had therefore appointed three sub-committees to give special consideration to the representations received on subjects which seemed to be of greatest concern to members and had decided to make its own inquiries into the numerous other matters raised. The sub-committees have now made their reports to which the Committee is giving close consideration, as well as continuing its own inquiries into the other matters with a view to the submission of recommendations to the Council.

### Registration of Articles

The Secretary reported the registration of 92 articles of clerkship during the last month, the total number since January 1st, 1962, being 1,114.

### Admissions to Membership

The following were admitted to membership of the Institute:

Agballah, Hyacinth Okoli Petrus, A.C.A., a1962; P.O. Box 18, Udi, Nigeria.

Astbury, Ivor Charles, A.C.A., a1962; 234A High Street,

Eastleigh, Hants. Freeman, Nicholas Donald James, A.C.A., a1962; c/o John Hunter, Morris & Elkan Ltd, 12/16 Dane Street, London

§Hay, Robert Lawson, A.S.A.A., a1962; 7 Old Park Ridings, London N21.

Hudson, John, A.C.A., a1962; 10 Pretoria Row, Easy Road, Leeds 9.

Miller, Terry John, A.C.A., a1962; 23 Norfolk Mansions, Prince of Wales Drive, London SW11.

§Nelson, Byron Bernard, A.S.A.A., a1962; P.O. Box 1783,

Tehran, Iran. Nesbitt, Robert Anthony Ellis, B.A., A.C.A., a1962; 43 Gordon Place, London W8.

### Fellowship

The Council acceded to applications from three associates to become fellows under Clause 6 of the supplemental Royal Charter.

### **Members Commencing to Practise**

The Council received notice that the following members had commenced to practise:

Adeyemo, Michael Adepoju, B.Sc. (ECON.), A.C.A., a1962; M. Ade Adeyemo & Co, 14 Montpelier Road, London W5. Beardsell, Kenneth, F.C.A., aS1932; †Armitage & Norton, Martins Bank Chambers, Tyrrel Street, Bradford 1.

Beldham, Henry Bailey Bryant, F.C.A., aS1927; Levy, Hyams & Co, Central House, 36 Oxford Street, London

Bowling, John Greenwood, F.C.A., aS1948; Bowling, Jenkins & Co, First Floor, 17 Custom House Street, Cardiff.

Brodie, Maurice Harvey, A.C.A., a1962; Maurice H. Brodie & Co, 9 Alderton Crescent, London NW4.

Casey, Martin Patrick, F.C.A., a1934; †Kennedy, Crowley & Co, 4/5 Westmoreland Street, Dublin.

Chapman, Barry David, A.C.A., a1961; Barron, Rowles & Co, Chansitor House, 37/38 Chancery Lane, London WCo

Charity, William Brian, A.C.A., a1958; Parker, Edwards & Co, 102 Scotch Street, Whitehaven, and at Preston and Worcester.

Chissell, John Gordon, A.C.A., 21957; Plummer, Parsons, Harrap & Chissell, 18 Hyde Gardens, Eastbourne.

Crawford (Miss), Emily, F.C.A., aS1931; Roy Kendall &

Partners, 47 Park Square Chambers East, Leeds 1. Dayer, Frederick George, F.C.A., a1948; 4 Baugh Road, Downend, Bristol.

Emanuel, Peter Moss, A.C.A., a1961; G.02, Du Cane Court, Balham, London SW17.

a indicates the year of admission to the Institute.

aS indicates the year of admission to The Society of Incorporated Accountants.

§ Means 'incorporated accountant member'.

Firms not marked † or \* are composed wholly of members of the Institute.

† against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Fielden, Mark, B.A., A.C.A., a1961; Bland, Fielden & Co, 11 Sir Isaac's Walk, Colchester, and at Frinton-on-Sea, London and Witham.

Gibson, Reginald, A.C.A., a1954; 6 Harbord Road, Waterloo, Liverpool 22

Glazer, Donald, B.A., A.C.A., a1961; Field, Atlas & Co, Brookfield House, 62-64 Brook Street, London W1.

Glover, Kenneth David, A.C.A., a1955; F. W. Stansfield & Co, 3 Eldon Place, Manningham Lane, Bradford 1.

Goddard, Claud Algernon, F.C.A., a1939; Bland, Fielden & Co, 11 Sir Isaac's Walk, Colchester, and at Frinton-on-Sea, London and Witham.

Greeley, Paul William, A.C.A., a1961; 8 West Heath Road,

Abbey Wood, London SE2.
Grimes, Thomas Edward, A.C.A., a1955; Smallfield, Fitzhugh, Tillett & Co, 24 Portland Place, London W1. Grinyer, Leslie Sydney, F.C.A., aS1948; Slater, Chapman

& Cooke, 157 Victoria Street, London SW1.

Groom, Brian, A.C.A., a1962; 19 Coniston Road, Addiscombe, Croydon, Surrey.

Hillman, Philip Samuel, A.C.A., a1962; Levy, Hyams & Co, Central House, 36 Oxford Street, London WI

Holmes, Eric, A.C.A., aS1956; W. S. Cunliffe & Co, 378 Stockport Road, Longsight, Manchester 12. Jenkins, Walter, F.C.A., aS1937; Bowling, Jenkins & Co, First Floor, 17 Custom House Street, Cardiff.

Lye, Raymond John, A.C.A., a1958; Birkett, Wesson & Co, 6 Hanover Square, London W1.

Mayes, Edward Graham, A.C.A., a1958; 16 Field Lane,

Fakenham, Norfolk. Nolan, William Barrie, A.C.A., a1957; Brook, Shires & Co, 24 Basinghall Street, Leeds 1.

Parris, Derek George, A.C.A., aS1957; Boaler, Flint & Hurt, 5 Regent Street, Park Row, Nottingham.
Ridge, Michael John, A.C.A. a1958; 18 Thistledene, East

Molesey, Surrey.

Robins, Clifford Smith, F.C.A., aS1933; Bland, Fielden & Co, 11 Sir Isaac's Walk, Colchester, and at Frinton-on-Sea, London and Witham.

Shulman, Neville Lionel, A.C.A., a1962; 14a Finchley Road, St John's Wood, London NW8.

Simmonds, Geoffrey Emanuel, A.C.A., a1956; 39 Woodend, Sutton, Surrey.

Simpson, Michael Harry Trevor, A.C.A., a1960; Boaler, Flint & Hurt, 5 Regent Street, Park Row, Nottingham.

Singh, Kanwar Anand, B.COM., A.C.A., a1952; Lovelock & Lewes, 4 Lyons Range, Calcutta 1, and at Bombay and Madras.

Smith, Arthur, A.C.A., a1958; \*H. Sutton & Co, 1004 Stratford Road, Hall Green, Birmingham 28. Stanger, Peter John William, A.C.A., a1956; Barron, Rowles & Co, Chansitor House, 37/38 Chancery Lane, London WC2.

Taylor, Laurence Edward, A.C.A., a1952; W. Rowland Waller & Co, 37 Broadway, Sheerness, Kent, and at London.

Taylor, Peter Roy, F.C.A., a1950; Woolger, Hennell, Scott-Mitchell & Co, Moorfields Chambers, 165/167 Moorgate, London EC2, and at Glasgow.

Todman, Archibald Ian, F.C.A., a1927; 5 Priory Close, Chislehurst, Kent.

While, Peter Graham, A.C.A., a1955; Ronald L. Thursz & Co, 314 Church Street, Blackpool.

### Re-admission to Membership

One application under clause 23 of the supplemental Royal Charter for revocation of exclusion from membership was refused.

It was reported to the Council that the following re-admission, made at the Council meeting on June 6th, 1962, subject to payment of the amount required, had become effective:

Cohen, David Solomon, B.Sc. (ECON.), A.C.A., Rhov Abba Hilkiya 2, Katamon, Jerusalem, Israel.

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## ACCOUNTANT

### Resignation

The Council accepted the resignation from membership of the Institute of:

Ball, Norman Sidney Robertson, F.C.A., 40 Tubbenden Lane, Orpington, Kent.

### **Deaths of Members**

The Council received with regret the Secretary's report of the deaths of the following members:

Boucher, James, F.S.A.A., Wallasey. Challands, Robert Sydney, M.A., F.C.A., Darlington. Clark, Howard Summers, F.C.A., Victoria, B.C. Connerton, Thomas Raymond, F.C.A., Ipswich. Denman, Arthur Bernard Crossland, F.C.A., Norwich. Gill, Walter Percy, F.C.A., Lowestoft. Hillman, Tom Edward James, F.C.A., London. Keighley, Clifford, F.C.A., Mold. Kemp, Ernest Thomas, F.C.A., Southampton. Mallinson, Joseph Harrison, F.C.A., Manchester. Petrie, Henry, F.C.A., London. Pomfret, Walter, F.C.A., Preston. Porter, Reginald, F.C.A., London. Spencer, Charles Alfred, F.C.A., Kettering. Tarr, Frank Williams, F.C.A., Bridgwater. Townend, Clarence Edward, M.C., F.C.A., Doncaster. Walkden, Eric, B.COM., F.C.A., Bolton. Wrigley, Harold, F.C.A., Poole.

### FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on June 6th, 1962.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a Fellow of the Institute practising with other persons as a firm had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of clause 21 of the supplemental Royal Charter in that the firm acted as professional accountants to a limited company without first communicating with the then auditors and professional accountants, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved and ordered that the member be reprimanded, but directed that in the special circumstances of this case the name of the member should not be published.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Ian Kenneth Johnstone, A.C.A., was at the Assizes held at Liverpool in and for the West Derby Division of Lancaster on September 21st, 1961, tried and convicted upon indictment of burglary, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Ian Kenneth Johnstone, A.C.A., had been proved and the Committee ordered that Ian Kenneth Johnstone, A.C.A., formerly of 17 Croxteth Road, Liverpool 8, be excluded from membership of the Institute.

### FINDING AND DECISION OF THE APPEAL COMMITTEE

Finding and Decision of the Appeal Committee of the Council of the Institute appointed pursuant to bye-law 108 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on June 15th, 1962.

The Appeal Committee heard an appeal against the Finding and Decision of the Disciplinary Committee of the Council of the Institute upon a formal complaint preferred by the Investigation Committee of the Council to the Disciplinary Committee that John Duncan King, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of clause 21 of the supplemental Royal Charter in that (a) he failed within a reasonable time or at all to deal with or answer repeated requests made to him by a creditor in relation

to the liquidation of a company; (b) he failed to reply or take any action in response to four letters written to him by an Under-Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Appeal Committee affirmed the Finding of the Disciplinary Committee that the formal complaint against John Duncan King, F.C.A., had been proved under both headings and the Appeal Committee, varying the decision of the Disciplinary Committee, ordered that John Duncan King, F.C.A., of 137 Victoria Street, London SW1, be reprimanded.

### MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Accountants' Legal Responsibility . . . with a collection of leading cases . . .; by S. Levy. New York. 1954. (American Institute of Accountants, 96s.)

Accounting Practice Management Handbook; edited by J. H. MacNeill. New York. 1962. (American Institute of Certified Public Accountants, 96s.)

The Appraisal of Management for Executives and Investors; by J. Martindell. New York. 1962. (Harper, 38s.)

The Basic Postulates of Accounting; by M. Moonitz. New York. 1961. (American Institute of Certified Public Accountants, 12s.)

The British Banking Mechanism; by W. M. Dacey: fourth edition. 1962. (Hutchinson, 21s.)

'Cash Flow' Analysis and the Funds Statement; by P. Mason. New York. 1961. (American Institute of Certified Public Accountants, 12s.)

The Commonwealth and Europe. (Economist Intelligence

Unit.) 1960. (E.I.U., 42s.)
The Complete Guide to Personal Investment; by P. J. Naish. 1962. (Evans Brothers, 21s.)

The Consolidation of Accounts explained step by step; by W. J. Fairbairn: second edition. Cape Town. 1962. (Juta, presented by the author.)

Costing and Efficiency in Hospitals: a critical survey; by

C. Montacute. 1962. (O.U.P., 25s.)

The Design of Forms in Government Departments.

(Treasury.) 1962. (H.M.S.O., 21s.)

Effective Speaking; by D. Carnegie: revised by Dorothy Carnegie. Kingswood, Surrey. 1962. (Worlds Work, 18s.) Employer's Liability at Common Law; by J. Munkman:

fifth edition. 1962. (Butterworths, 47s 6d.)

Formation and Management of a Private Company; by F. D. Head: fifth edition by Margaret Booth. 1962. (Pitman, 21s.)

Guide to the Friendly Society Acts and the Industrial Assurance Acts. (Registrar of Friendly Societies . . .) 1962. (H.M.S.O., 12s 6d.)

History of the British Steel Industry; by J. C. Carr and

W. Taplin. 1962. (Basil Blackwell, 63s.) How to Lie with Statistics; by D. Huff. 1954. (Victor

Gollancz, 138 6d.)
Industrial Relations: Contemporary Problems and Per-

spectives; edited by B. C. Roberts. 1962. (Methuen, 30s.)

Laws of Business Management and the executive way of life; by G. Copeman. 1962. (Business Publications, 42s.) Monetary Theory and Practice; by J. L. Hanson: second edition. 1962. (Macdonald & Evans, 30s.)

The New Law of Betting and Gaming; by J. P. Eddy and L. L. Loewe. 1961. Supplement by J. P. Eddy and D. G.

Cracknell. 1962. (Butterworth, 45s and 10s.)

Practical Applications of Accounting Standards: a decade of comment on accounting and auditing problems; (edited) by C. G. Blough. New York. 1957. (American Institute of Certified Public Accountants, 48s.)

Practical Public Relations; by S. Black. 1962. (Pitman,

30s.) The Preparation of the Accounts of Trustees and Liquidators; by W. J. Fairbairn. Cape Town. 1962. (Juta, presented by the author.)

The Principles of Production Control; by J. L. Burbidge.

1962. (Macdonald & Evans, 50s.)

The Rating and Valuation Act, 1961, with introduction and annotations; by E. Roydhouse, 1962. (Butterworths, 25s.) Report of a special committee dealing with Terminology, Classification, Preparation . . . and Other Aspects of Accounting for Livestock Farming. (New Zealand Society of Accountants.) Wellington. 1961. (New Zealand

Society of Accountants, presented.)
Report of the Company Law Committee. Cmnd. 1749.
(Board of Trade.) 1962. (H.M.S.O., 128 6d.)

Standard Costs: how they serve modern management; by C. W. Bennett. Englewood Cliffs, N.J. 1957. (Prentice-Hall, 77s.)
Trade Unions in a Free Society: studies in the organisation

of labour in Britain and the U.S.A.; by B. C. Roberts: second edition. 1962. (Hutchinson, 30s.)

## Notes and Notices

### PROFESSIONAL NOTICES

Mr D. F. Byrne, B.A., F.C.A., and Mr D. A. PALMER, A.C.A., announce that the practice formerly carried on by them in partnership under the name of D. F. BYRNE & Co, at 48A London Road, Kingston upon Thames, Surrey, is being continued at the same address under the name of BYRNE, PALMER & Co.

Messrs Cobden, Board & Co, Chartered Accountants, of Fountain House, Sheffield 10, and Bush Lane House, Cannon Street, London EC4, announce that as from July 1st, 1962, they have taken into partnership Mr CLINTON JULIAN BOARD, A.C.A.

Messrs Coopers & Lybrand, Chartered Accountants, announce the extension of their practice to the Bahamas, and a partnership has been formed consisting of Messrs Bernard Gadd, a.c.a., Brian C. J. BECKETT, A.C.A., HARRISON C. HAYES, C.A. (CANADA), and CAMPBELL W. LEACH, C.A. (CANADA). The firm will practise from 234 Bay Street, P.O. Box 5539, Nassau, Bahamas.

MESSAS B. GRUGEON & Co, Chartered Accountants, of 56 Westmoreland Road, Bromley, Kent, announce that Mr A. R. REYNOLDS, A.C.A., has been admitted to partnership as from July 1st, 1962. The practice will be carried on under the style of GRUGEON, REYNOLDS & Co at the above address.

Messrs Hibbert, Sier, Woods & Co, Chartered Accountants, of Capel House, 54 New Broad Street, London EC2, announce that Mr C. M. ANSTEAD, F.C.A., and Mr A. L. Burgess, A.C.A., both of whom have been with the firm for several years, have been

admitted to partnership as from July 1st, 1962. The firm's name will remain unchanged.

It is announced that as from June 24th, 1962, the association of Messrs Litton, Pownall, Blakey & HIGSON and ASTBURY, MITCHESON & MILLER with Messrs Dryden, Dorrington & Co has been discontinued. Messrs Litton, Pownall, Blakey & HIGSON and ASTBURY, MITCHESON & MILLER (partners: James Blakey, Clarence Rutter, John Deakin WALTER STANLEY ECCLES, GRAHAM THORNLEY, CUNLIFFE and DAVID PINNOCK HARLOW) will continue to practise from 42 Spring Gardens, Manchester 2, and Messrs Dryden, Dorrington & Co (partners: Hugh McCreery and Keith Ashton) will practise from 21 Spring Gardens, Manchester 2.

Messrs Turquand, Youngs & Co announce that Mr F. A. Keeling, F.C.A., who has been with the firm for many years in London and the East is being admitted as a partner of their Far Eastern firms with effect from July 1st, 1962. Mr KEELING will be resident in Kuala Lumpur.

### Appointments

Mr H. S. Axton, F.C.A., and Mr R. Rees, F.C.A., have been appointed general manager and secretary, respectively, of Brixton Estate Ltd.

Mr E. S. Bell, M.A., F.C.A., has been appointed financial director of the Amalgamated Dental Co Ltd, as from June 30th, 1962, and has resigned from the office of secretary from that date.

## NATIONAL INSURANCE Collection of Graduated Contributions

Mr John Boyd-Carpenter, Minister of Pensions and National Insurance, has asked the National Insurance Advisory Committee to consider and report on draft regulations<sup>1</sup> concerning the collection of graduated national insurance contributions. These amending regulations are necessary because the regulations governing the collection of income tax under the P.A.Y.E. system on which provision for the collection of graduated contributions is based have recently been consolidated. They contain only one new provision which concerns the power of collectors of taxes to certify amounts of unpaid graduated contributions in the same way as unpaid P.A.Y.E. income tax.

The Committee will consider representations on these draft regulations received by them not later than July 31st, 1962. Representations should be made in writing and should be sent to the Secretary, National Insurance Advisory Committee, 10 John Adam Street,

London WC2.

### IN PARLIAMENT £ Sterling: Value

Mr COLLICK asked the Chancellor of the Exchequer whether he is aware that, taking the internal purchasing value of the £ sterling as 20s in October 1951, it had declined to 18s 1d in June 1954, and to 15s 11d in June 1957; and what was the comparable figure for May 1962.

Sir E. BOYLE: Yes, on the basis of the retail price index. The comparable figure for May 1962 was 14s. Hansard, June 27th, 1962. Written Ans. Col. 156.

## INCOME TAX PAYERS' SOCIETY Affiliation to National Federation of Property Owners

The Income Tax Payers' Society, which recently announced its decision to wind up after forty years' existence, is to continue. At a general meeting of members held on July 12th a resolution was moved by the Chairman, Mr Geoffrey Stevens, F.C.A., M.P., recommending the affiliation of the Society to the National Federation of Property Owners, who have undertaken to enable the Society to continue its aims and objects. Economies in administration will be effected by merging the staff and offices of the two organizations. The Income Tax Payers' Society will, however, remain a separate entity.

however, remain a separate entity.

Mr E. C. L. Hulbert-Powell, director of the National Federation of Property Owners will become director of the Society, which will in due course leave its present offices and be accommodated with the

<sup>1</sup> The draft National Insurance (Collection of Graduated Contributions) Amendment Regulations, 1962. H.M.S.O. 1s.

National Federation of Property Owners at St Stephen's House, Westminster.

The journal of the Society, the Income Tax Payer, will be incorporated into Property, the monthly journal published by Property Newspapers & Periodicals Ltd, which is a subsidiary company of the National Federation of Property Owners. The main features of the Income Tax Payer will be continued in Property.

## THE INSTITUTE OF INTERNAL AUDITORS London Chapter

At the annual general meeting of the London Chapter of The Institute of Internal Auditors held on June 13th, Mr E. N. Judge, F.C.W.A., A.I.M.T.A., South Eastern Electricity Board, was elected President for 1962-63. Other principal officers elected were:

First Vice-President: Mr D. Taylor. Second Vice-President: Mr J. H. Protheroe, A.A.C.C.A., A.I.M.T.A.

Secretary: Mr H. G. Cox, The Monotype Corporation Ltd, Salfords, Redhill, Surrey.

### BUDGET POSTER, 1962

Facts about the United Kingdom revenue and expenditure are shown graphically in the Budget Poster for 1962 published by the Treasury. The Poster, the thirteenth in the series, gives the main items of revenue and expenditure proposed in the 1962 Budget, both in money terms and as a share of each £1.

For every £ of revenue that the Government expects to collect in the financial year, 1962-63, over one-third - or 7s 1d - will come from taxes on personal incomes (income tax and surtax). Tax payments by companies will provide 2s 10d, while death duties should yield 9d. Taxes on spending will provide 8s 9d in the f, the main items being tobacco (2s 7d), oil and motor duties (2s 1d), purchase tax (1s 9d) and alcohol (1s 4d). On the expenditure side, 'social and community services' take 7s 3d of every £. This includes assistance to Local Authorities for expenditure on such services as education, housing, police and roads (2s 5d); central education services (5d); health services (2s 3d), and personal payments - national insurance, war pensions, family allowances, etc. (1s 10d). 'Economic services' take 2s 6d of each £; interest payments on the national debt, 1s 11d. Defence takes 5s 3d of each £. The Budget is estimated to yield a surplus of revenue over expenditure, amounting to 1s 3d in each f of revenue which will be allocated to 'below the line' spending on such things as loans to nationalized industries and to the Post Office and loans for overseas development.

A quarter of a million copies of the Poster have been printed for distribution to offices, factories, schools, libraries, public houses and post offices, etc. Copies can be obtained free of charge from Central Office of Information, Circulation Section (H), Hercules Road, Westminster Bridge Road, London SE1.

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### THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

### RESULTS OF EXAMINATIONS HELD IN MAY 1962

Under the new system of five annual examinations (Parts I to V), the following candidates were successful in the examinations held in May 1962

#### PART I

Aitken, H. E. D. (Carrickfergus, Co. Grimes, J. M. (Dublin). Antrim).

Bogan, L. G. (Dublin). Bolger, M. J. (The Rower, Co. Kilkenny). Bolton, J. F. M. (Belfast).

Capper, G. (Belfast).
Champion, F. M. F. (Dublin).
Clarke, J. L. (Belfast).
Coleman, T. A. (Dublin).
Colvin, G. R. (Belfast).
Cooney, P. J. (Dublin).
Cooper, W. S. J. (Belfast).
Corcoran, C. A. (Bray, Co. Wicklow).
Cotter, B. E. (Dublin).
Cremin, P. C. (Dublin).
Crowley, J. A. F. (Cork).
Cusack, T. J. (Dunmore East, Co. Waterford).

ford).

Deasy, M. D. (Dublin). Drew, M. N. (Dublin). Duffy, D. P. (Belfast).

Buckley, E. B. (Dublin).

Fitzmaurice, M. D. F. (Dublin). Fletcher, W. P. (Mullingar, Co. Westmeath).

Geoghegan, N. P. (Dublin). Gibson, J. J. (Dublin). Greely, J. P. (Naas, Co. Kildare). Griffin, P. (Limerick).

Hamilton, A. V. (Dublin). Hampson, D. A. (Dublin). Harrison, P. J. (Sligo). Hashim, A. (Dublin). Holland, W. M. (Cork). Holmes, R. D. (Dublin). Hunter, M. H. (Belfast).

James, G. H. (Belfast).

Kenna, K. D. P. (Dublin).

Lawless, P. J. M. (Dublin). Lawlor, P. A. (Dublin). Lawson, G. D. (Dublin).
Lawson, G. D. (Dublin).
Lawson, T. (Portadown, Co. Armagh).
Ledwidge, F. (Holywood, Co. Down).
Little, M. J. (Dunadry, Co. Antrim).
Longmore, D. J. M. (Belfast).

McBriar, E. F. (Comber, Co. Down).
McDonald, D. C. (Belfast).
McDonald, R. (Delgany, Co. Wicklow).
McDowell, W. R. (Armagh), Second Place.
McElwaine, G. (Omagh, Co. Tyrone).
McKenna, K. F. (Dublin).
McMillan, W. R. D. (Bangor, Co. Down).
McVeigh, W. H. C. (Comber, Co. Down).
Mayee, R. J. (Bangor, Co. Down).
Manek, P. (Dublin).
Mason, S. T. (Dublin).
Mayberry, D. R. (Dublin), Third Place.

Maynard, C. D. (Dublin). Meharg, J. (Belfast). Milligan, M. J. F. (Belfast). Molloy, T. F. (Limerick). Moore, P. J. (Dublin). Morgan, R. A. (Dublin). Morgan, G. M. (Danesfort, Co. Kilkenny). Mullarkey, M. J. (Belfast). O'Brien, B. (Dublin), First Place. O'Brien, P. J. (Mallow, Co. Cork). O'Connell, D. (Cork). O'Neill, E. A. (Dublin). O'Shaughnessy, A. G. F. (Dublin). Powell, F. P. (Bangor, Co. Down).

Quinn, M. (Limerick). Quish, M. A. (Dublin).

Ryan, C. J. (Dublin).

Scott, A. P. (Belfast).
Shaw, S. G. (Larne, Co. Antrim).
Sherry, B. F. (Dublin).
Sinnamon, T. S. (Dunmurry, Co. Antrim).
Smyth, J. G. (Newtownabbey, Co. Antrim).
Spain, M. G. (Thurles, Co. Tipperary).

Truell, J. (Wicklow). Twamley, W. (Dublin).

Walsh, J. P. (Carrick-on-Suir, Co. Tippe-rary). Whitty, P. (Dublin).

Wilkinson, K. W. (Belfast).

### PART II

Balmer, R. C. G. (Dublin). Boylan, D. M. (Dublin). Braiden, E. D. (Dublin). Brophy, L. M. O. (Dublin).

Carey, B. J. P. (Dublin). Carroll, S. N. (Dublin). Caulfield, J. A. (Dublin). Cope, S. D. (Castledermot, Co. Kildare).

D'Arcy, A. J. (Dublin). D'Arcy, D. P. (Dublin).

Fitzsimons, J. G. (Newry, Co. Down). Flanagan, T. P. (Dublin). Furlong, J. J. A. (Dublin).

Galloway, K. J. (Dublin). Grant, P. C. W. (Dublin). Gribben, M. (Dublin).

Gribbon, E. J. (Belfast).

Hanlon, P. J. (Dublin), Second Place.

Hewat, J. R. B. (Dublin). Hickey, D. C. (Dublin).

Irvine, M. S. (Whitehead, Co. Antrim).

Kay, (Miss) M. (Belfast). Kenny, K. A. R. (Dublin). Kevans, P. A. (Limerick).

Loughrey, D. M. (Dublin).

McAdams, N. J. (Dublin).
McCann, W. (Bray, Co. Wicklow).
McCarthy, P. K. (Dublin).
McCloskey, J. (Belfast).
McClure, A. G. (Bangor, Co. Down).
McCrossan, D. P. (Dublin), First Place and the John Mackie Memorial Prize.
McCullagh, D. F. (Dublin).
McHugh, T. K. (Mullaghmore, Co. Sligo).
McKenna, R. A. (Dublin).
McKnight, H. W. (Belfast).

McLoughlin, J. P. (Dublin).
McQuoid, S. I. (Belfast).
Maybury, C. S. (Dublin), Third Place.
Milne, P. J. (Dublin).
Morrissey, C. M. (Dublin).
Murphy, D. (Mallow, Co. Cork).
Murphy, J. D. (Dublin).
Murray, J. (Longford).
Murray, J. T. (Lisburn, Co. Antrim). O'Driscoll, J. J. (Dublin). O'Gorman, T. F. (Dublin). Osborne, J. C. B. (Belfast). Pack, P. J. (Bangor, Co. Down). Peelo, R. A. (Dublin). Prescott, W. R. (Newry, Co. Down). Saunders, G. F. (Dublin). Sheehan, J. M. (Dublin).

Ward, M. P. G. (Dublin). Wilson, G. W. (Belfast).

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#### PART III

Artt, P. (Comber, Co. Down).

Barber, J. S. (Bishopstown, Co. Cork).
Blake, J. (Enniskillen, Co. Fermanagh).
Bland, G. C. (Belfast), Second Place.
Botros Abdel Said, B. H. (Dublin).
Bowen, F. W. I. (Blackrock, Co. Cork).
Browne, J. (Waterford).
Browne, W. G. (Dublin).
Burke, J. J. (London).
Byrne, D. J. (Dublin).

Cahill, E. P. (Dublin).
Casey, J. L. E. (Dublin).
Coady, M. J. (Dublin).
Collins, D. F. (Cork).
Collins, J. K. (Dublin).
Comerford, J. (Dublin).
Crawford, W. A. (Belfast).
Cronin, J. D. (Dublin).
Cullen, M. T. J. (Dublin).

Dalton, C. A. (Cork).
Dennes, R. P. (Belfast).
Devlin, F. P. (Dublin).
Dooley, M. (Newcastle West, Co.Limerick).
Duffy, P. C. (Derry).
Dunphy, T. D. (Dublin).

Eakin, J. W. (Omagh, Co. Tyrone). Egan, J. F. J. (Dublin). Ellis, R. N. (Dublin).

Feely, R. P. (Dublin).

Geary, J. W. G. (Limerick). Geraghty, M. W. (Newbridge, Co. Kildare). Graves, R. C. (Dublin). Greene, E. (Dublin). Griffith, P. G. (Dublin). Grimes, G. M. (Dublin).

Harkness, G. D. B. (Belfast). Hearne, F. J. (Dublin). Higgins, T. P. (Dublin).

Hillis, J. (Belfast). Hunter, W. I. (Dublin).

Irwin, D. A. (Belfast).

Johnston, G. M. (Belfast).

Keane, B. T. (Dublin). Keenan, J. J. (Dublin). Kelly, H. H. (Belfast). Kennedy, R. F. (Ballymena, Co. Antrim). Kidney, J. C. (Dublin).

Lane, D. T. (Dublin). Ledlie, M. (Banbridge, Co. Down). Lorigan, T. (Dublin). Low, K. T. (London). Lyons, J. F. (Dublin).

McCabe, H. (Ballymena, Co. Antrim). McCagherty, A. B. (Newtownabbey, Co.

Antrim).

McCracken, G. C. J. (Dublin).

McGlowe, R. J. (Ballina, Co. Mayo).

McGloughlin, C. G. (Dublin).

McGoldrick, F. (Dublin).

McKeon, V. E. S. (Dublin).

McKeon, V. E. S. (Dublin).

McKeown, T. A. (Bray, Co. Wicklow).

MacSitig, S. (Tralee, Co. Kerry).

MacSay, P. W. (Dublin).

Manning, J. P. (Strabane, Co. Tyrone).

Martin, J. A. (Dublin).

Mercer, G. S. (Belfast).

Miller, D. (Enniskerry, Co. Wicklow).

Moore, W. A. (Belfast).

Morrow, G. (Belfast).

Murphy, D. A. G. (Mallow, Co. Cork),

Third Place.

Murphy, H. B. (Dublin).

Murphy, H. B. (Dublin).
Murphy, J. B. (Cork).
Murphy, J. E. (Dublin).
Murphy, P. J. (Carney, Co. Sligo).
Murray, T. J. (Foxrock, Co. Dublin).

Neary, R. J. (Dublin).

Nixon, G. A. (Newtownards, Co. Down), First Place and the Arthur H. Muir Memorial Prize.

O'Brien, E. B. (Cork). O'Brien, J. G. (Dublin). O'Brien, W. A. (Dublin). O'Callaghan, E. C. G. (Dublin). O'Callaghan, E. C. G. (Dublin).
O'Connor, D. E. (Dublin).
O'Daly, R. K. (Dublin).
O'Hara, F. G. (Lurgan, Co. Armagh).
O'Sheill, F. S. M. (Dublin).
O'Shea, J. F. (Dublin).
O'Shea, J. T. (Dublin).
O'Shea, P. C. (Dublin).
O'Suilleabain, S. D. (Dublin).
O'Tierney, F. J. (Dublin).
Owens, C. A. (Mullingar, Co. Westmeath).

Pappin, P. W. (Dublin).
Power, O. W. M. O. (Tramore, Co. Waterford).

Reilly, W. J. (Bray, Co. Wicklow). Richards, A. J. M. F. (Bangor, Co. Down). Richardson, P. J. (Dublin). Robson, J. E. (Dublin). Rogers, B. A. (Dublin). Ryan, C. D. (Dublin).

Scott, J. E. (Belfast).
Scott, R. A. G. (Dublin).
Short, F. B. (Dublin).
Short, F. B. (Contadown, Co. Armagh). Stewart, M. H. (Sligo).

Taylor, J. F. (Bangor, Co. Down). Taylor, M. W. (Dublin). Tipping, D. C. (Lurgan, Co. Armagh). Traynor, B. (Dublin).

Vaughan, F. M. (Dublin). Watson, G. A. C. J. (Dublin). Whooley, D. J. (Dublin).

### PART IV

Agnew, W. P. (Ballymena, Co. Antrim). Allan, F. H. (Belfast). Allan, S. (Belfast).

Chapman, J. J. (Dublin). Coppel, L. A. (Belfast). Cuffe, D. B. (Dublin).

Doyle, M. C. (Dublin).

Fleetwood, D. A. A. (Dublin), First Place and the Samuel Smyth Memorial Prize.

Gould, M. P. (Dublin).

Jackson, R. L. (Belfast).

Keenan, J. J. (Dublin). Kelleher, S. D. (Dublin). Kelly, V. F. J. (Dublin). Kosky, R. (Dublin).

Lonergan, (Carrickmacross, Monaghan).

McDonogh, W. J. (Limerick). McGoldrick, F. (Dublin). McGrath, D. J. A. (Dublin).

May, N. W. M. (Holywood, Co. Down)
Third Place.

O'Broin, K. M. P. (Dublin). O'Callaghan, P. J. (Dublin).

Patterson, T. A. W. (Belfast), Second Place. Pilkington, J. A. (Sligo).

Quadros, O. P. X. (Belfast).

Reilly, D. W. G. (Lisburn, Co. Antrim).

Robson, J. E. (Dublin).

Tanney, B. P. (Belfast). Thomason, N. G. (Newcastle, Co. Down).

### PART V

Curran, J. F. (Dublin). Forshaw, G. K. (Belfast). Kilroy, N. D. (Dublin).

McCabe, D. A. K. (Dublin), First Place Moore, D. J. C. (Dublin).

and the Incorporated Society Jubilee Prize.
Millar, J. (Newtownabbey, Co. Antrim),
Second Place equal.

Welch, R. J. (Belfast).

\_\_\_\_\_

Sythes, M. (Belfast), Second Place equal.

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# The Cambridge Summer Course

HE season for summer schools, courses and conferences is now under way and, this week-end, 140 fortunate members of The Institute of Chartered Accountants in England and Wales are in residence at Emmanuel and Sidney Sussex Colleges, Cambridge. Until last year, Oxford had been the exclusive venue for these Institute gatherings first started in 1947 but, new ground having been broken, the Cambridge summer course looks like creating the same high traditions as those already established at the 'other place'. As Mr Percy F. Carpenter, F.C.A., states in his foreword to the programme booklet, the summer courses which stand high in the post-war development of the Institute have had far-reaching and beneficial effects and they become more popular each year. Preference is given to members who have not attended a previous course or who have not attended one for a period of five years. This policy ensures that an ever-growing cross-section of members may take advantage of these delightful cultural and social occasions.

As usual, three subjects have been chosen for discussion and the now customary methods of presentation are being observed. In the morning, the speaker introduces his paper and this is followed by group discussions before and after the coffee break. In the evening, after dinner, the speaker in general meeting answers questions raised by the groups who then retire for further talk far into the night. Afternoons are being given over mainly to sight-seeing and sporting activities.

The first paper, in point of time, was Insurance and the accountant', presented by Mr DAVID WILLIAMSON, F.C.A., on Thursday. Insurance is a subject about which accountants are expected to know little or nothing for their examinations and everything afterwards for the benefit of their clients or company. Mr Williamson, in his informative survey, wisely confines himself to those aspects of it most likely to be met with in industrial companies. First among these is fire insurance, the primary consideration being what assets should be covered and, most important of all, what basis of valuation should be adopted. The insurer has two alternatives – the reinstatement basis (known as 'new for old') which provides for full replacement cost and the indemnity basis (known as 'like for like') in which the insurer has to make a cash contribution equivalent to the improvement element derived from having new assets in place of old. Mr WILLIAMSON deftly explains how these questions are dealt with and, also, in what circumstances the policy should be governed by average and when by special condition of average.

Linked with fire insurance is consequential loss insurance. There can be few accountants in practice who have not certified details on behalf of clients in connection with this kind of policy. Mr WILLIAMSON summarizes the essentials without a hint of compression and then goes on to deal with profit insurance on new plant; employers', public and products liability insurances; engineering and motor vehicle insurances; and, among others, insurances relating to goods in transit, fidelity, personal accident and forged transfers. The first of these, profit insurance on plant, may not be quite so familiar as the others. It covers the contingency of loss of profits which may result for one reason or another from the postponement of the completion date of new plant. In view of present-day costs and of setbacks through strikes and other causes which may arise, delay in the commencement of the 'pay-off' period may be serious. Mr Williamson concludes a most useful paper by drawing attention to discounts which insurance companies may offer under long-term agreements.

In Friday's paper, 'Taxation aspects of amalgamations and reconstructions', Mr D. O. Bailey, F.C.A., is concerned with problems made daily more difficult on the one hand by the intricacies of modern business deals and, on the other, by the complications of taxation law. He divides his thesis into two parts, the case which concerns the acquisition of shares and the case where the business is acquired. In each instance, Mr Bailey clearly restates the law and, where relevant, considers income tax, profits tax, surtax and estate duty consequences as well as stamp duty obligations.

This must have been a most difficult paper to write because, as Mr Bailey says in his conclusion, circumstances differ with each case and nothing is more likely to lead to error than an attempt to lay down hard and fast rules. Nevertheless, he succeeds expertly in encompassing his subject and in providing material for discussion. It is safe to say, even writing a day or two before the event, that Mr Bailey had many questions to answer.

Saturday's child, according to the rhyme, works hard for a living, and Mr R. D. S. Shrimpton, F.C.A., who presents today's paper must have

worked hard to produce such a comprehensive review of what 'Service to management' means in terms of financial control. He defines the objective of manufacturers as being to sell their products as profitably as possible 'in the long term'. This phrase, he emphasizes, is important because although policies may vary profits over comparatively short periods, it is the outcome over 'the long term' which is decisive. To achieve this aim, the manufacturer must buy the best materials, pay good salaries and wages to secure the best human material and be content with reasonable profit margins in order to consolidate and expand his business and to discourage competition. The purpose of financial control is to help the manufacturer and his men first to create a market and then to keep it adequately supplied as expeditiously and as economically as possible.

This is philosophy rather than commercial accounting but it is good philosophy, and Mr Shrimpton soon proceeds to explain how it can be put into practice by keeping a careful watch on capital investment and the return being obtained therefrom and by the installation and operation of systems of costing and budgetary control.

It is interesting to note the geographical and occupational representation of the 140 members attending the course. Nearly half of them come from London and eighteen from Birmingham and the immediate vicinity. There are seven members from abroad (and that really means abroad because Scotland and Ireland are not represented), Nairobi, Lagos, Bombay, Singapore, Hong Kong, Maracaibo and Cape Town being the names on their luggage labels. The ratio of members in practice to members in industry in each group averages twelve to eight. 'Industry' covers a wide variety of manufacturing concerns as well as commercial and industrial interests. The 'oldest member' was admitted to the Institute in 1925 and the youngest in 1962. In all, five were admitted to the Institute or The Society of Incorporated Accountants in the 1920s, twentyseven in the 1930s, forty in the 1940s, sixtyfour in the 1950s and thirteen in the 1960s. This would presuppose that a greater thirst for knowledge exists among the younger members and that is all to the good for the future success of the courses and, indeed, of the Institute.

We look forward to reproducing the papers in full in future issues.

## Short-term Gains - II

### CONTRACTS TO ACQUIRE AND DISPOSE

AST week we dealt with the circumstances in which a person's dwelling-house is treated as not being a chargeable asset, as set out in clause II (3) of the Finance Bill. Clause II (4) provides further exemptions. It applies to the following assets:

- (i) a building;
- (ii) part of a building;
- (iii) a permanent or semi-permanent structure, in the nature of a building;
- (iv) part of a permanent or semi-permanent structure, in the nature of a building;
- (v) land.

Items (i) to (iv) must be occupied and used by the taxpayer for the purposes only of a trade, profession or vocation carried on by him. The trade must not consist of:

- (i) dealing in land; or
- (ii) developing land; or
- (iii) providing services for the occupier of land in which the taxpayer has an estate or interest.

Item (v) must be occupied by the taxpayer for purposes ancillary to his occupation of items (i) to (iv). If these conditions are satisfied, then items (i) to (v) are not chargeable assets in relation to the taxpayer's acquisition and disposal of them. The scope of this clause 11 (4) exemption is extended to two cases where the occupier is not, technically speaking, carrying on a trade as defined above. The first is where the taxpayer is a public or local authority using the specified assets in discharge of its functions. The second is where the taxpayer is using the specified assets in the occupation of woodlands on a commercial basis and with a view to the realization of profits. By a curious quirk of the law, this activity is not regarded as a trade.

The limitations imposed by clause II (7) (referred to in one place last week by its original number, 'clause IO (6)') apply to clause II (4) as they apply to clause II (3). This puts the occupier of woodlands in a curious position; he has to satisfy the Revenue that he is occupying the woodlands with a view to realizing profits but that he acquired the specified assets without any view to disposing of them at a profit. The clean-boot

farmer is in a similarly Gilbertian position.

At the committee stage Mr Bruce Millan, C.A., pointed out that clause II (4) did not deal specifically with fixed plant. As a result, clause II (5) was introduced at the report stage. It provides that fixed plant or machinery which does not form part of a building or structure (when it would be covered by clause II (3)) and which a person uses for the purposes only of a trade carried on by him, shall not be chargeable assets in relation to any acquisition or disposal of it by him. Again this provision is subject to clause II (7), and it applies in relation to the discharge of public or local authority functions, and the occupation of woodlands on a commercial basis, as it applies in relation to a trade.

There was a curious lacuna in the Bill as originally drafted. Clause 11 (6) provided that patent rights should not be chargeable assets. There are, of course, provisions dating back to 1945 which impose tax liability on the proceeds of sale of patent rights. What the draftsman overlooked was that these provisions were long ago extended to rights to acquire patent rights in the future. Clause 11 (6) was extended at the report stage to exclude those rights also from the categories of chargeable assets so that there will be no double taxation.

That the new tax is confined, at any rate at present, to short-term gains is emphasized by clause 10 (2) which provides, not very logically, that

'there shall be no acquisition and disposal within the meaning of this chapter where the disposal occurs more than three years after the acquisition in the case of a disposal of land, or where the disposal occurs more than six months after the acquisition in any other case'.

This is subject to clause 14 which deals with the disposal of shares in land-owning companies. Broadly speaking, any acquisition of an interest in assets, or rights over them, is to be treated as an acquisition of the assets, even if the interest or right, as such, ceases to exist on the acquisition. Likewise, any disposal of an interest or right in or over the assets is to be treated as a disposal of the

assets (clause 12 (1)). The corollary to this is contained in clause 12 (2). The contract to acquire or dispose is to be deemed to constitute in itself the acquisition or disposal. As a further corollary, the conveyance or transfer in pursuance of the contract 'shall not be deemed to be an acquisition or disposal of the asset'. No doubt, what the draftsman really means is 'shall be deemed not to be an acquisition or disposal.' (This kind of confused thinking is not uncommon in Finance Act drafting.) Clause 12 (2) applies even where the asset is not in existence or is not ascertained at the time of the contract.

The Ninth Schedule to the Bill seeks to tie up some of the loose ends left by the main clauses. Paragraph 1 (1) provides (subject to paragraph 2) that a person's acquisition or disposal by a contract is to be disregarded for the purposes of Case VII if:

- (a) the contract is discharged by mutual consent or by operation of law; or
- (b) default is made in carrying out the contract and by reason of that default there is no conveyance or transfer to implement the contract, whether by or to the person originally making the contract or another; or
- (c) the contract is conditional and the condition is not satisfied.

It follows that if the contract to acquire or dispose is abortive, then there is no acquisition or disposal for Case VII purposes, notwithstanding clause 12 (2). If, nevertheless, some consideration has been given and retained under the contract, that consideration will apparently be disregarded. For instance, if the taxpayer buys property for £1,000, agrees to resell it for £1,200 but retains the property and a deposit of £200 because the sale goes off through the purchaser's default, the £200 is not taxable. If, still within the maximum period, the taxpayer completes a sale at, say,  $f_{1,100}$  he pays tax on only the  $f_{100}$ . By the same token, the first purchaser, who paid £200 for nothing, will not be able to claim it as a Case VII loss.

Paragraph I (2) of the Ninth Schedule must be read in the light of the foregoing. It purports to deal with the situation 'where a person disposes of an asset', but 'disposes' here must be read in the sense of disposal under a contract which is not abortive in the sense of paragraph I (2). Any

amount of the consideration which is irrecoverable is to be disregarded for Case VII purposes – except to the extent that the right to such irrecoverable consideration is itself disposed of for a consideration which is actually received. Similarly, where the consideration under the contract is abated for any error or default in the contract, the abated consideration is to be taken as the consideration originally bargained for.

Many contracts for the acquisition and disposal of assets are subject to some condition before they take real effect; for instance, the contract may merely give one party an option to purchase. To treat such a contract as an acquisition and disposal, under the general rule laid down by clause 12 (2), would open the way to an artificial lengthening of the period between acquisition and disposal. Accordingly paragraph 1 (3) of the Ninth Schedule lays down another general rule, namely, that the acquisition or disposal takes place when the condition is satisfied, e.g. when the option is exercised. However, in the case of the person disposing of the asset under a conditional contract, if the consideration does not depend wholly or mainly on the 'value' of the asset at the time the condition is satisfied, then (on the condition being satisfied) the disposal is to be treated as if the contract had never been conditional. In other words, in favour of the disponor one reads the period between acquisition and disposal as ending when he made the conditional contract to dispose of the asset (paragraph 1 (4)).

One apparent way to avoid Case VII tax would be to discharge the contract for disposal by mutual consent, and substitute a later contract outside the vulnerable period. Paragraph 1 (5) counters this by providing that the new contract is to be treated as if it had taken place at the time when 'the disposal by the previous contract is to be treated as having taken place'. If the previous contract was conditional, the condition is to be regarded as satisfied at the time of the new contract. Paragraph 1 (5) conflicts with paragraph I (I). It speaks of the 'disposal by the previous contract'. But ex hypothesi the previous contract was discharged and, therefore, by paragraph 1 (1) the disposal under that previous contract is to be 'disregarded for Case VII purposes'. In view of paragraph 1 (5), it is not to be disregarded entirely.

(To be continued.)

#### THE JENKINS REPORT

# Company Audits and Auditors

AFTER imposing the obligation on companies to produce audited accounts, the Companies Act, 1948, requires the auditors of companies to be qualified persons, but it goes on by proviso to exempt (in effect) about five-sixths of all companies from this requirement, namely, exempt private companies. In its memorandum of evidence, the Council of The Institute of Chartered Accountants in England and Wales claimed that this exception was unsound and created dangers to which a company should not be permitted to expose itself. The memorandum said:

'The exception was introduced in the mistaken belief that there were not sufficient qualified auditors to act for all exempt private companies. The information available to the Council indicates that relatively few exempt private companies have auditors who are not qualified or authorized as required by section 161 and therefore the Council is satisfied that the removal of the exception would not create difficulty for exempt private companies in obtaining qualified auditors.'

The Councils of The Institute of Chartered Accountants of Scotland and The Association of Certified and Corporate Accountants both made similar representations in their written evidence. The Board of Trade added the weight of their own suggestions.

In its Report, the Jenkins Committee said that there was general agreement - except by certain associations of accountants not recognized under section 161 (1) (a) of the Companies Act, 1948 – that the accounts of all companies should be audited by accountants qualified under section 161 (1). A sample inquiry conducted by the Board of Trade indicates that some 90 per cent of all exempt private companies are now audited by such accountants. The Committee therefore sees no good reason for continuing the distinction between exempt private companies and other companies in this, or indeed in other, respects. Accordingly, it is part of the general recommendation for the abolition of exempt private companies that all companies shall have qualified auditors.

The Committee goes on to observe that if this

recommendation were adopted without qualification, the result would be that a number of persons now employed as auditors of private companies would be deprived of their livelihood. The Committee therefore recommends that the Board of Trade be empowered to authorize any person, who can satisfy them that at the date of publication of the Jenkins Report he was mainly occupied in private practice as an accountant and was employed as the auditor of an exempt private company, to be appointed auditor of a company. This is provided that none of the company's securities have been quoted or offered to the public, and also provided that the company is not a subsidiary of a company whose securities had been quoted or offered. There would also be a power of revocation.

To be a qualified auditor under section 161 (1), it is necessary to fall into one of two categories, (a) and (b). To be within (a), the auditor must be a member of a body of accountants established in the United Kingdom and for the time being recognized by the Board of Trade. Category (b) is split into three; the auditor must be individually authorized by the Board either as

- (i) having similar qualifications to those in (a) but obtained outside the United Kingdom; or
- (ii) having obtained adequate knowledge and experience in the course of his employment by a member within (a); or
- (iii) having before August 6th, 1947, practised in Great Britain as an accountant.

The bodies recognized under (a) are four in number. The Jenkins Committee did not accept a suggestion that the four be actually named in the Companies Act and that this list be subject to addition or removal subject to the affirmative resolution procedure.

The Committee recommends that section 161 (1) should be redrawn in order to avoid giving the impression that members of

bodies of accountants established abroad are regarded as not professionally qualified. The Board of Trade have in practice authorized foreign accountants to be appointed auditors if the Board were advised that the professional standards of the foreign accountancy organizations to which the applicants belonged were similar to those of the four recognized United Kingdom bodies. As a condition of authorizing other individuals the Board have required evidence that the applicant has been in the employment of a member of a recognized body for, in general, five years and that his employment has been such as to enable him to obtain adequate knowledge and experience in the work of auditing the accounts of non-exempt companies. The Board understandably do not relish this duty; they suggested that it was not a proper function of a Government department to assess professional competence and complained that they had experienced difficulties in regard to this responsibility. However, the Committee has made no recommendation in response to this plea. Indeed, the recommendation that the Board should have power to revoke authorizations under the suggested new code will, if adopted, add to the Board's statutory duties. The Committee does recommend that if a recognized auditor becomes disqualified, either by his own accountancy body or by withdrawal of Board of Trade authorization, it should be clear, under the Companies Act, that his appointments as auditor of companies automatically cease.

The unqualified repeal of the exemptions for exempt private companies would mean that in no case would it be possible for the partner of a director or other officer or servant of the company to be appointed auditor. Thus, where at present an exempt private company finds it convenient to have a professional accountant on its board, and that accountant is a member of the same firm as the auditor, such an arrangement will have to be terminated. The Committee is against such arrangements in principle but it recognizes that an abrupt change might cause practical difficulties in particular cases and it expresses the hope that these difficulties could be provided for by suitable transitional provisions.

Section 159 (2) of the Companies Act provides for the automatic reappointment of a retiring auditor at the annual general meeting unless he is not qualified for reappointment, or there is a resolution to a contrary effect, or he has given written notice of unwillingness to continue. This is an anomalous provision and the Committee quite rightly recommends that every company should be bound to appoint or reappoint an auditor expressly at each annual general meeting.

The practice has grown up of appointing firms of accountants by name, as auditors. This is all very well in the case of a Scottish firm which has an independent corporate existence. It is not always understood in England that a reference to a firm is a reference to the persons composing it at the time. It is certainly not universally realized that an individual who becomes a partner in a firm of accountants does not thereby become an auditor to the company which has appointed the firm as its auditors. The confusion can be worse when years go by without any express reappointment. The Committee recommends that where an English firm is appointed, the appointment should be deemed to extend to all the duly qualified members of the firm from time to time during the period of the appointment. However, the Committee thinks that the appointment should lapse if (a) more than half of the members at the time of the appointment leave the firm, or (b) the number of new members joining the firm after the last appointment exceeds the number of present members who were members at the time of the appointment. Moreover, the members of the firm should be under a duty to notify the company that their appointment has lapsed owing to these changes. The Committee thinks that similar provisions should apply to Scottish firms of account-

Section 160 requires special notice to be given to a company when it is intended to propose a change of auditor. On receipt of this notice the company must notify the retiring auditor. The Committee recommends that the proposed new auditor should also be notified. Another recommendation is that the Companies Act should expressly authorize an auditor to resign during his period of office. Whether by so resigning he is to be regarded as being at fault is a matter which can be dealt with by his professional association, or by the Board of Trade if he is not a member of an accountancy body.

The Committee accepts the suggestions of accountancy bodies that the wording of the

auditor's report should be shorter and simpler. It recommends that the Ninth Schedule be amended to require the auditors' report to state:

- (i) whether in their opinion the balance sheet and profit and loss account of the company (or, where group accounts are submitted, the said accounts of the holding company and the group accounts) are properly drawn up in accordance with the provisions of the Act so as to give a true and fair view of the state of the company's affairs at the date of its balance sheet and of its profit or loss for its financial year ended on that date; or
- (ii) (in the case of a company which has taken advantage of the exemptions conferred by Part III of the Eighth Schedule) whether in their opinion the balance sheet and profit and loss account (or those accounts and the group accounts as the case may be) are

drawn up in accordance with the provisions of the Act.

The report would of course contain any qualifications which the auditors wished to make. The shortness of the statutory form of report would help to highlight any such qualifications. With the current report it is difficult for the layman to distinguish the wood from the trees.

The Committee has rejected the plea that the auditor of a holding company should have power to require the auditor of a subsidiary company to furnish him with such information and explanations in relation to the affairs of the subsidiary as he thinks necessary. In the Committee's view it would be invidious to give such power, the logical conclusion of which would be that both companies must appoint the same auditor; a provision which the Committee would regard as impracticable and undesirable, although it does not say why.

# Professional Negligence

# With Special Reference to Solicitors' Accounts by A BARRISTER-AT-LAW

THIS subject was discussed generally by the writer in *The Accountant* of December 24th, 1960. In the present article it is proposed to consider in particular an accountant's duty of due and proper care in furnishing a certificate under the Accountant's Certificate Rules, 1946, and the Accountant's Certificate (Amendment) Rules, 1954 and 1956. This is a topical subject by reason of the case of *Luscombe* (a former solicitor) v. Roberts and Pascho (a firm of chartered accountants) which came before Mr Justice Megaw last April and was referred to in *The Accountant* of April 28th, at page 537.

The duties of practising solicitors are such that more of other people's money passes through their hands than through those of other professional firms. Accordingly, there is special legislation dealing with solicitors' accounts, just as there is special legislation dealing with the accounts of savings banks, local authorities, companies, trustees and other bodies handling large sums of money in connection with which they have special obligations. The relevant legislation relating to solicitors is to be found in the Solicitors

Acts, 1933, 1941 and 1957; the Solicitors' Accounts Rules, 1945, and the Solicitors' Accounts (Amendment) Rules, 1959; the Solicitors' Trust Accounts Rules, 1945, and the Accountant's Certificate Rules referred to above.

The general scheme of the legislation, so far as it affects solicitors' accounts, provides:

- (i) for the keeping of books of account and of separate bank accounts for the solicitor's own money on the one hand, and for clients' money and trust money on the other;
- (ii) for every solicitor to deliver annually, when he applies for a practising certificate, a declaration as to his compliance with the Solicitors' Accounts Rules; and
- (iii) for the compulsory examination each year of every solicitor's accounts by a duly qualified accountant, and for the delivery by the solicitor to the Registrar of Solicitors of an accountant's certificate as to his compliance with such Rules.

Paragraph 10 (1) of the Solicitors' Accounts (Amendment) Rules, 1959, states that every solicitor shall at all times keep properly written up such books and accounts as may be necessary:

(a) to show all his dealings with (i) clients' money held, received or paid by him, and (ii) any other money dealt with by him through a client account, and (b) to distinguish such money held, received or paid by him on account of each separate client, and to distinguish such money from other money held, received or paid by him on any other account.

Paragraph 7 of the Solicitors' Accounts Rules, 1945, is particularly relevant to the case in question. It states that there may be drawn from a client account (a) in the case of clients' money:

(i) money properly required for a payment to or on behalf of the client;

 (ii) money properly required for or towards payment of a debt due to the solicitor from the client or in reimbursement of money expended by the solicitor on behalf of the client;

(iii) money drawn on the clients' authority; and

(iv) money properly required for or towards payment of the solicitor's costs where a bill of costs or other written intimation of the amount of the costs incurred has been delivered to the client and the client has been notified that money held for him will be applied towards or in satisfaction of such costs;

and (b) in the case of trust money:

(i) money properly required for a payment in the execution of the particular trust; and

(ii) money to be transferred to a separate bank account kept solely for the money of the particular trust.

#### Accountant's Certificate Rules

The nature of the examination of a solicitor's books to be undertaken by an accountant before furnishing his certificate is prescribed by Rule 4 of the Rules of 1946. He is not required to carry out a complete audit of the solicitor's accounts but, first, to make a general survey of the books of account and bank statements so as to satisfy himself that a separate bank account for client's money has been kept; that a reasonable system of book-keeping is in use, and that the books are kept up to date. Secondly, he should select two dates at random and make an examination of the solicitor's position regarding liabilities to clients at each of those dates, asking for such information and explanations as he may require. If the general examination and detailed tests disclose evidence that the Rules have not been complied with, the accountant is required to pursue a more detailed investigation. The form of accountant's certificate in the Rules relates to an individual solicitor, and it is not sufficient to give a single certificate in respect of a firm. Rule 6 prescribes the cases where an accountant's certificate is not required –

generally where a solicitor does not practise or does not hold clients' money.

#### Facts in Luscombe's Case

The plaintiff was the sole partner in a firm of solicitors and had been in practice since 1930. From 1946 onwards the defendants had acted as the plaintiff's accountants both for the purpose of furnishing the annual certificate under the Accountant's Certificate Rules and for the purpose of preparing his accounts for submission to the Inspector of Taxes.

Towards the end of July 1958 the defendants discovered a deficiency in the plaintiff's clients' account, amounting at September 14th, 1958, to £10,369. This deficiency had been accumulating since 1952-53 and had arisen because of the transfer of money paid to clients' account, on behalf of clients, to the plaintiff's office account. The office account had been used for the payment of moneys to, or on account of, clients; for the payment of the plaintiff's professional expenses, and for payment of his private and personal expenses. These payments had, over the years 1953 to 1958, exceeded the plaintiff's receipts from his practice by the amount of the deficiency. The plaintiff's income for tax purposes had been overstated for each year from 1953 to 1957 and he had paid tax on this overstated income, but £1,564 had later been recovered from the Revenue.

The plaintiff appeared before the Disciplinary Committee of The Law Society, which in January 1959 held that he had failed to comply with the Solicitors' Accounts Rules; had utilized for his own purposes money held and received by him on behalf of clients; had made declarations which he knew or ought to have known were untrue for the purpose of obtaining practising certificates, and had delivered accountant's certificates which he knew or ought to have known to be false. His name was ordered to be struck off the Roll of Solicitors of the Supreme Court. He appealed, but the Divisional Court dismissed the appeal.

In an action against the defendants, the plaintiff claimed that the sole cause, or at least the effective cause of his misfortunes – the creation of the large deficiency in the clients' account, his being struck off the Rolls and the over-payments of tax – was the defendants' breach of the duty which they owed him. He therefore claimed damages against them.

Megaw, J., said that in considering the issue between the plaintiff and the defendants he thought it right to disregard altogether the findings of the Disciplinary Committee and the

judgment of the Divisional Court, because the evidence was by no means necessarily the same in each case and a solicitor could be struck off the Rolls without being dishonest. He found, however, that throughout the years 1953 to 1958 the plaintiff had been dishonest so that there was no liability on the defendants by reason of the maxim ex turpi causa non oritur actio. But the defendants 'were in breach in various respects of their duty as accountants towards the plaintiff for which in other circumstances they would have been liable'.

#### Accountants' Duty

His lordship said it was at least highly probable that if the defendants had carried out their duties in accordance with the required standard of care, including their duty (which was a duty to the public as well as the plaintiff) under the Accountant's Certificate Rules, the irregularities which the plaintiff was committing in connection with his clients' moneys, and his accounts with regard thereto, would have come to light much earlier and would have been prevented for the future. If the plaintiff were innocent of dishonesty, he would presumably thereafter have conducted his affairs in a regular way so as not to imperil his clients' money. If he were dishonest and knew full well that what he had been doing was wrong, he would have been pulled up short in his dishonest practices by the refusal of the defendants to give a certificate, other than a certificate reporting fully on the irregularities discovered under the Rules.

In these circumstances it was clear that if the plaintiff were himself completely free from blame, he would be entitled to recover damages in some measure from the defendants in respect of their breach of duty, which would have been in part, if not in whole, the cause of his loss. If, throughout the period from 1953 to 1958, he had acted dishonestly in dealing with his clients' money, he would not be entitled to recover from the defendants any loss of any sort which he had suffered arising out of or connected with his own dishonesty; and that would be the case no matter how great or glaring the defendants' breaches of duty towards him or towards the public might have been, and no matter how clearly it might be established that the defendants, acting with due diligence, could have put a stop to the plaintiff's conduct and have saved him from the consequences of continuing dishonesty.

#### Plaintiff's Irregularities

The plaintiff kept all his own books of account. Each year after April 5th, he submitted them to the defendants who, after making such study of them and the bank pass-sheets as they thought necessary, gave year by year their accountant's certificate. From 1953 to 1956 it was a clean, unqualified certificate; for 1957 there was a qualification that there had been certain trivial breaches of the Solicitors' Accounts Rules due to errors or mistakes in book-keeping, all of which were rectified on discovery, and that the certifier was satisfied that none of such breaches resulted

in any loss to any client.

The certificates were, in fact, untrue on each occasion. The plaintiff had not complied with the provisions of the Solicitors' Accounts Rules in most material respects. The judge said the defendants should have known this, but they did not, in fact, know it. Though in no way dishonest they had failed to carry out their duties with the care required of competent accountants. The qualification was appended to the certificate of 1957 because, by an amendment of the Rules operative in November 1956, solicitors were required to keep their clients' account ledgers with two separate principal money columns on each side. The plaintiff's client's ledger was not so kept and this breach had not been remedied when the certificate had been issued.

In respect of the plaintiff's accounts for the year 1951-52 the defendants raised a query with the plaintiff which brought it clearly to his notice that the manner in which he was dealing with clients' money was not proper and not in accordance with the Solicitors' Accounts Rules. Nevertheless, the plaintiff thereafter not only continued to deal with clients' money in the same way, but from the autumn of 1952 onwards greatly increased the practice. The defendants, in breach of their duty as accountants, failed in relation to the accounts of the year 1952-53 and all subsequent years down to 1958 to discover that the practice which they had condemned in 1952 was continuing and had increased. In 1958 their audit clerk discovered what had been going on and brought the matter to light.

#### Defendants' Negligence

His lordship said that the partner in the defendant firm who issued the accountant's certificate was guilty of negligence. He fell short of his duty, both to the plaintiff and to the public, in that he failed, knowing what had been found in 1952, to ensure that the different audit clerk who did the detailed work on the accounts in the following year was made alive to the criticism which had properly been made in 1952. He failed, without adequate excuse,

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to qualify the 1952 certificate so as to inform The Law Society of what had been found in the 1951-52 accounts. He failed in all subsequent years to exercise the supervision which it was his duty to exercise in ensuring that comparatively young and inexperienced audit clerks performed their task with full appreciation of what was involved. He did not suggest it was a breach of duty to allow young staff to do detailed audit work; the breach lay principally in inadequate supervision. The plaintiff was personally known to the partner concerned who relied on the fact that he was the sole partner, that he kept his own books, and having no executive staff, was unlikely to be prejudiced by dishonesty or incompetence in his own office. He failed to appreciate to the proper extent that his duty as an accountant was wider than merely to protect the plaintiff, and extended to protecting clients and the public against carelessness or dishonesty on the part of the plaintiff himself. The defendants failed in their duty to discover from the plaintiff's books that in each year from 1953 to 1957 inclusive, the Solicitors' Accounts Rules were being seriously infringed and clients' moneys wrongly used.

They should have discovered that the accounts they prepared for income tax purposes overstated the plaintiff's income since, in effect, they included moneys which belonged to clients. There were numerous features of the plaintiff's books which would have put a competent accountant on inquiry, and inquiries properly pursued would have led to discovery. Transfers had been made from clients' account before they could properly be made under the Solicitors' Accounts Rules. Under Rule 7 (a) a solicitor could not, without his client's authority, pay money from clients' account into an account of his own in anticipation of making a disbursement on behalf of a client. He could make the disbursement direct from clients' account, when it was due, to the person to whom it was due. He could make the disbursement from his own funds and thereafter reimburse himself from clients' account; but he could not draw money out of the clients' account and pay it into some other account of his own before he had himself paid the disbursement.

Also under Rule 7, a solicitor was not entitled without his client's authority to transfer money out of clients' account in satisfaction, in whole or in part, of profit costs unless and until a written intimation or bill showing the amount of the costs had been delivered to the client, with a notification that money held for the client would be used in satisfaction of such costs. Transfers could not

be justified by profit costs earned but not yet

The defendants had contended, however, that they were entitled to assume without further ado that part of the irregular transfers which could not be ascertained to have been for disbursements was properly made as representing profit costs, for which bills had been duly rendered to the clients concerned. The judge said the defendants were not entitled to make such an assumption, particularly having regard to the frequency, amounts and dates of the transfers and to what had been discovered in the 1952 accounts. They ought to have inspected the bill file which was open to them. That would have shown that many of the transfers could not be justified since there was no record of bills having been rendered. Certain deliberately inaccurate entries had been made by the plaintiff with intent to deceive the defendants. In these cases payments were shown to have been made in a previous financial year. It was the discovery of three such entries which had put an audit clerk on inquiry in 1958.

#### **Defendants' Warning to Plaintiff**

At a meeting with the plaintiff on July 25th, the partner dealing with his affairs had told him he had been guilty of fraudulent conversion; that his practice of making transfers from clients' account must cease immediately, and that in future all clients' moneys must be held on clients' account and disbursements on behalf of clients made from that account, the only transfers to office account being in respect of ascertained costs.

By August 6th, however, the plaintiff had made further irregular transfers without the knowledge of the defendants. On hearing of them the partner concerned had, on August 26th, written the plaintiff the following letter:

'You have actually transferred clients' moneys, to which you had no entitlement, to your private account, and have continued to do so after our interview of July 25th, when we specifically told you that the practice must cease. As we have already informed you at interview we cannot accept that you were unaware of what you were doing. You must have known that you have used clients' moneys for your own purposes and are apparently continuing to do so.'

The partner did not, however, inform the plaintiff that his income had been overstated year by year in the accounts prepared for the Inspector of Taxes, so that a substantial amount of tax had been overpaid. The partner's explanation, given in evidence, was that the overpaid tax would have been included in a full computation of the plaintiff's affairs which was being prepared by an audit clerk but which had not been completed when the plaintiff, early in September 1958, had taken other advice, employed another accountant and withdrawn his instructions to the defendants. The judge said it would have been better if the defendants had mentioned this aspect to the plaintiff at an earlier stage, even if they were not then in a position to compute the figures. But that failure did not reflect on the partner's integrity.

#### **Breaches of the Rules**

His lordship said that in finding the plaintiff guilty of dishonesty he had applied the standard of proof laid down by the Court of Appeal in Hornal v. Neuberger Products Ltd ([1957], 1 Q.B. 247). The defendants, however, had made an alternative submission as to liability, and in case he was overruled as to the plaintiff's dishonesty, he ought briefly to deal with it. It was contended that even if the plaintiff were acquitted of dishonest intention, he was clearly in breach of the Solicitors' Accounts Rules during the period in question, and whether he realized it or not, that fact alone would debar him from succeeding in his action. In support of that submission they cited R. Leslie Ltd v. Reliable Advertising Agency Ltd ([1915], 1 K.B. 652); Haseldine v. Hosken ([1933], 1 K.B. 882); Askey v. Golden Wine Co Ltd ([1948], 2 All E.R. 35), and Strongman (1945) Ltd v. Sincock ([1955], 2 Q.B. 525). They also pointed out that by section 47 of the Solicitors Act, 1957, the Disciplinary Committee of The Law Society had statutory power to impose for breaches of the Rules, inter alia, a penalty not exceeding £500 to be forfeit to Her Majesty. Thus, it was contended a breach of the Rules by a solicitor was unlawful in the full sense of that word, as being something contrary to the public interest and expressly made punishable by a fine payable to the Crown.

The judge said that the point was one of considerable difficulty. But he had no doubt that the plaintiff knew, from 1952 onwards if not earlier, that his transfers from clients' account were being made in breach of the Rules, and he would accordingly have held (if he had not found the plaintiff to have been dishonest) that the true cause of any loss which he had suffered was his own continuing breach of the Rules. Hence, even on that hypothesis, the plaintiff's claim would

have failed.

#### **Damages**

The judge also considered the measure of damages which would be payable by the defendants, if he

were overruled. The damages claimed by the plaintiff were:

- (i) £3,679 amount of plaintiff's income overstated for the years 1953-57, less net overpaid tax recovered.
- (ii) £3,546 additional sum necessary to meet total deficiencies in clients' account.
- (iii) £166 interest on tax overpaid.
- (iv) £100 fee paid by plaintiff to an accountant to make an investigation.
- (v) £1,569 alleged loss on forced sale of goodwill of plaintiff's practice.
- (vi) Loss of earnings a continuing sum through plaintiff being struck off the Rolls.

His lordship said that if there were liability on the part of the defendants, the plaintiff would clearly be entitled to recover item (iii). He would also be entitled to recover that part of item (iv) which was attributable to the investigation itself. That fee, however, included the work of preparing the plaintiff's accounts for 1957-58, which would not be recoverable. He would assess the recoverable part of that fee at £70. Nothing would be recoverable under item (v) as the goodwill of the plaintiff's practice had been sold for a fair price, even supposing it had taken place in normal circumstances. Nothing, too, would be recoverable under (vi) as the plaintiff had not been struck off the Rolls as a consequence of any negligence alleged or proved against the defendants. Items (i) and (ii) covered the amounts subscribed by other solicitors to make up the balance of the deficiency on clients' account. If a loss were proved which was recoverable from a defendant as damages, the plaintiff's claim was not prejudiced by the fact that charitably disposed persons had come to the plaintiff's assistance (see Redpath v. Belfast and County Down Railway Co ([1947], Northern Ireland Reports 167)).

If there had been liability on the part of the defendants for professional negligence, the judge said he would have been disposed to hold that there should be an assessment of the loss which the plaintiff had suffered by reason of his having been induced to live at too high a standard over a period of five or six years, resulting in his being faced with a very substantial debt in 1958. But he would not have assessed that value at anything like the figure in money which the plaintiff had actually overspent. In the end he would have taken that value as being one-half of the money figure, so that the damages recoverable under this head, if liability had been established, would have been of the nature of £3,600 with interest.

However, the judge's decision was that the plaintiff's claim wholly failed and must be dismissed.

# Weekly Notes

#### EIGHTH INTERNATIONAL CONGRESS

N other pages of this issue we set out the programme for the Eighth International Congress of Accountants in New York next September, together with details of the United Kingdom delegations.

One of the principal speakers at the opening plenary session will be Mr P. F. S. Otten, Chairman, N.V. Philips' Gloeilampenfabrieken. Mr Arthur K. Watson, President of the IBM World Trade Corporation, will be the second speaker at the opening session. Like Mr Otten, Mr Watson heads a large international organization and is familiar with the financial, accounting and marketing problems inherent in world-wide operations. Others to speak briefly at this session will be the Presidents of the Sixth International Congress of Accountants in London in 1952 and the Seventh Congress in Amsterdam in 1957, Sir Harold Howitt and Mr J. Kraayenhof.

At the technical sessions that follow on Monday afternoon there will be fifteen simultaneous sessions at which forty-five accountants from various countries will present papers. Each session will have one speaker talking on 'Auditing and the world economy', another on 'Accounting and the world economy' and a third on 'Financial reporting and the world economy'. These papers will deal with specific problems as the speakers see them. Eight of the papers are being submitted by United Kingdom contributors as detailed on pages 77-78 of this issue. The papers presented at these sessions will provide the subject material for the Tuesday morning discussions when the Congress will be divided into 150 groups each comprising twenty members.

It seems to us a pity that copies of the papers are not to be circulated in advance as, of course, it will entail a considerable expenditure of members' time in New York in studying them. Although the organizing committee will no doubt have considered the matter and presumably have good reason for deciding against distributing the papers beforehand, it is only natural that visitors may wish to feel free to take full advantage of their stay in New York, both socially and for sightseeing. As so many are journeying long distances to attend, this travelling time would have provided an admirable opportunity for Congress members to digest the papers and so be in a position to obtain the full benefit of the discussion periods.

In addition to the Congress technical sessions, an interesting programme of tours and social events has been arranged from which visitors can make their individual choices.

#### TREASURY CHANGES

WHATEVER impact Mr Macmillan's sweeping changes in his Government may have upon the electorate, in the long run everything depends upon the effect Mr Reginald Maudling, the incoming Chancellor, can exert upon the sluggish economy. It is far from apparent how the economy may be jerked into a forward momentum to achieve the long overdue expansion in the national product, without at the same time generating another spiral of wage inflation.

The transfer of Mr Anthony Barber from the post of Economic Secretary to Financial Secretary may well be the limit to which Mr Macmillan is willing to see Mr Selwyn Lloyd's policies continued, but Mr Edward du Cann's appointment as Economic Secretary should find a response within London's Square Mile. The last set of Budget estimates did not suggest that the first holder of the new post of Chief Secretary to the Treasury, Mr Henry Brooke, had made a particularly auspicious start and, given the need for expansion, it may well be doubted if the new occupant, Mr Boyd Carpenter, will enjoy any greater measure of success in restraining the flood tide of Government expenditure

Overdue or not, these changes in the faces in the Treasury will not by themselves resolve the problem of steering between the Scylla of inflation and the Charybdis of stagnation which has defeated every British post-war Chancellor. Foreign opinion will watch with interest the efforts to galvanize the British economy into action, but with the still limited reserves and inadequate export performance, the future of sterling may again become a matter for world concern. We can but wish success to Mr Maudling and his colleagues in their formidable tasks.

#### PROGRESS ON BUSINESS STUDIES

THERE were a number of developments in 1961 **L** on education for business studies according to Education in 1961 published last week. The report points out that these were on the lines of the 1959 McMeeking report on education for commerce.

Revised syllabuses and detailed arrangements of conditions for the approval of part-time courses leading to the Ordinary and Higher National Certificates in Business Studies were published in the spring, and the introduction of a new Ordinary National Diploma in Business Studies was also announced. The new certificate and diploma courses were offered in colleges in the autumn of 1961 and by the end of the year applications for approval for the three types of course exceeded 500. This is considered an encouraging response.

In July 1961 the Minister of Education announced the establishment of a Higher National Diploma in Business Studies to be awarded for the successful completion of a three-year sandwich or equivalent

<sup>&</sup>lt;sup>1</sup> Cmnd 1737. Price 8s 6d.

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full-time course. These courses are to begin in the autumn of 1962.

The introduction of a Higher National Diploma means that in business studies there is now the same pattern of national certificate and diploma awards as in the main technologies. Commercial educationalists will no doubt press for an even more advanced course comparable with the diploma in technology. The National Advisory Council has set up a working party under the chairmanship of Mr W. F. Crick to consider the demand for a higher award in business studies.

New diploma courses in management studies began in the autumn of last year. It has been emphasized by the Ministry that provision for advanced management studies should be limited to colleges where staff and other facilities enable them to give adequate tuition to students already holding degrees or equivalent qualifications and holding responsible posts.

The response from students and staff to the new courses in management studies was enthusiastic. Most of them came within the age group 25 to 35 and from a wide variety of occupations.

#### U.S. PLANT ALLOWANCES INCREASED

N July 11th President Kennedy announced a more liberal policy on depreciation allowances for the purpose of Federal taxation of profits. This is the first full-scale revision of tax depreciation schedules for twenty years. Its effect is to enable the writing-off of plant and equipment over a considerably shorter period than has been possible hitherto. The new rules give business men greater freedom and flexibility in determining for themselves the rate at which their equipment should be written off. Their write-offs would not in future be questioned as long as they were consistent with actual replacement and discarding of machines. Mr Dillon, Secretary to the Treasury, estimated that the additional depreciation allowances claimed on tax returns in the first year would be \$3,400 million which would in turn produce a reduction of some \$1,500 million in tax liabilities.

#### SORRY TALE FROM SIERRA LEONE

SELDOM in the history of auditing can a report have been more damning than that by the Director of Audit on the accounts of the Bonthe District Council for the year ended December 31st, 1961, reproduced in a recent issue of The Sierra Leone Gazette. At every stage the Council appears to have been frustrated in its efforts to keep proper records owing to 'the obtuseness, negligence and misdemeanour of its servants'. Control of expenditure was made more difficult because 'the treasurer, secretary and clerk' had all 'in recent months, accused each other of fraudulent practices and negligence'. Intentionally or otherwise, every error of

commission and omission in the accounting calendar appears to have been perpetrated within the year. The treasurer overdrew his salary; adjusting entries were not made for a number of dishonoured cheques already entered in the cash-book; in consequence, not surprisingly, the balance at bank was overstated and by a sum large enough to turn it into an overdraft; the existence of certain balances (representing grants received but not utilized) reflected 'the inability of Council to plan and control the expenditure on projects for which the grants were made'; towards the question of arrears of scholarship donations and uncollected fees, the attitude of the schoolmasters concerned was 'indifferent'; and, most original of all, the Council entered into a road contract 'with a limited company which, at the time, had not been incorporated, and was thus not a legal entity'. The Council subsequently had to pay the wages of labourers in order to prevent a breach of the peace.

In addition to his published report, which gives nearly thirty specific examples of irregularities, the Director of Audit submitted a detailed report to the Council containing sixty-five paragraphs of comment and four schedules of observations and queries and addressed to it a separate letter on thirty-one major matters requiring attention. In these circumstances and because this catalogue comes on top of adverse reports for the years 1959 and 1960, the director's stricture that 'the time has come when Council must properly assume its statutory responsibilities to the people in the matter of finance' would seem to be both a model of professional politeness and a masterpiece of restraint.

#### SPURT IN COTTON RE-EQUIPMENT

THERE has been a last minute burst of activity under the Government's re-equipment plan for the cotton textile industry.

Three weeks ago the President of the Board of Trade said in the House of Commons that he hoped applications would reach £80 million. It now looks as though £100 million will be achieved. The problem is now to decide how far these last minute applications are intended as genuine indications of an intention to invest in new capital equipment, and how far they may be merely a form of insurance. Before a scheme is approved it has to be vetted by the Cotton Board and orders for machinery have to be placed and installed by July 1964. There is thus some time to elapse before it can be said that full advantage has been taken of the Government's offer.

There have been instances reported where companies have submitted an application for the grant and have already regretted their decision because the outlook for the cotton textile industry is so problemmatical. Most concerns in the cotton industry, at least on the spinning and weaving side, are pinning their hopes for the future on the negotiation of additional protection for the home market against Asiatic competition.

# Tales of a Tax Man

#### by HAROLD E. COX

THE BLONDE AND THE BARROW BOY

HE was a young, zealous, crusading type of inspector of taxes and we find him examining the accounts sent in by a newsagent-tobacconist. His eager brain was alerted when he saw the amount charged for wages. It was undoubtedly high in relation to the turnover. And, of course, he sent out the stock inquiry.

Back came a brief reply: 'Wages £364: paid to young lady assistant, £6 per week; to errand boy, £1 per week.' This was long ago when a £ had real value.

The inspector's official mind revolved on to the next cog and he wrote: "The wages paid to your lady assistant appear to be much higher than the normal commercial rates of wages paid to shop assistants. Are there any special reasons for this, please?"

A few days later a young lady called at the tax office requesting to see the inspector. She had a letter to hand to him personally. She was shown up to his room. She was tall, blonde, extremely attractive and shapely. She held out the letter and smiled: 'Mr X. asked me to give you this letter.'

The inspector read:

'Dear Sir, This is Miss R. to whom I pay the £6 per week. Be a man, don't you agree she's worth every penny of it? Yours gratefully,——.'

I should like to be able to report that the inspector resigned and became a newsagent. Alas! he disallowed one-third of the wages. May his spirit be tormented by statistical blondes with long pink finger-nails for ever and ever!

The barrow boy was one of my guests when I was a young assistant inspector in a SW. London district. The inspector and I had been rather vainly endeavouring to canvass for members among the stall-holders in the North End Road area. This particular barrow boy sold fish. A return had been sent to him but he had ignored it and so an estimated assessment of £250 had been made on his profits.

The return may have suffered the fate of many other forms as reported by Mr Edward Welsh, Surveyor of Taxes for the City of London in the 1850s. He related how he went to Billingsgate and found Schedule D income returns being used to wrap up fish. He proudly wrote: Trecovered 1,200 of them.

My barrow boy called at the tax office to appeal against the assessment and he was shown up to me. He was short, tubby and red-faced. A curly-brimmed bowler hat, about two sizes too small, was perched on his head. His navy blue suit was sequined with fish scales and he reeked. I asked him to sit down and the

interview opened on conventional lines. No, he hadn't kept any books.

I then approached the problem from the other direction. What were his living expenses – how much did he give his wife each week for the housekeeping expenses, etc. I wish I could reproduce his rich, fruity (or fishy) Cockney accent, but this is impossible:

'Alf a minute, guvnor. I don't know what yer talking abart! It's like this – let me explain. Every morning I borrers two quid from a pal and I pushes me ole barrer up to Billingsgate and I buys two quids' worth of fish. I goes back to me pitch outside the Rose an' Crown. I then sells two quids' worth of fish and I pays back me pal.

'I goes on selling to get me a few bob for me beer and fags, which I goes and 'as in the Rose. Me missus watches me go in and she comes down and sells the bleeding lot that's left. She 'as this for what yer calls 'ousekeeping.'

Then he paused and looked at me in utter astonishment: "Tell me, guvnor, 'ow the 'ell can I keep accounts?' I agreed - 'ow the 'ell could 'e?

Here is another story which belongs to the past, before the job of an Inspector of Taxes became mechanized and sterile. In those days the collection of taxes was not centralized; it was carried out by numerous local collectors who were also assessors of taxes. One of their duties was to report to the inspector all businesses in their areas and this gave rise to the following incident:

A collector saw a brass plate affixed to the front wall of a house announcing Miss P. P. Minim, Teacher of Pianoforte. An income tax inquiry was in due course addressed to her. Some days later the inspector received this letter:

'Will you please note that no one of the name of Miss Minim lives at this address.

'My wife, who has been away for some time, is suspicious that I have been playing the part of sugar daddy to some little bit of fluff, during her absence. I should be glad if you would discontinue these letters as they cause much mental suffering.

'So far as the brass plate is concerned, it is retained on the wall to prevent it bulging.'

Was the following the origin of the phrase 'benefit in kind'? The parish council of H. in Bedfordshire was assessed on profits of £2 from the past year's working of the local cemetery. On receipt of the demand note, the clerk wrote explaining that his council had decided to consult the district auditor before paying the tax. 'Another way, of course, would be to offer to bury an Inspector of Taxes, at once, free of charge.'

It is frequently as difficult to end an article as it is to end a letter. I am reminded of a letter from a farmer's wife:

'My husband has received your assessment but it is wrong. He is not single but married and there are seven children, the last were twins, which arrived only a fortnight ago. That's all for now.'

# Finance and Commerce

#### **Stoll Theatres**

UR reprint this week shows the consolidated accounts for 1961 of Stoll Theatres Corporation Ltd, a name that from the point of public interest has moved from the financial columns to the news pages of the National Press. To readers of this journal, there is a natural interest in the accounts of a group which occupies such a dominant place in the theatre world. The extent of this dominance is apparent from the list of companies in the group given in the report; in all but three of the twenty companies listed, the Stoll interest is shown to be the full 100

A further list identifies the theatres controlled; twenty-nine in all, they include the Coliseum, Drury Lane, Her Majesty's and the Palladium in London, the Empires in Glasgow and Edinburgh, the Manchester Palace, the Empire and Theatre Royal in Nottingham and the Hippodromes in

Birmingham and Brighton.

Of more professional interest, however, is the fact that the company and its shareholders have become involved in a matter concerning an interpretation of the articles of association on the subject of voting powers. Accountants, from the earliest days of their training, are imbued with the importance of knowing for what a company's articles provide. As may happen in matters involving definitions, however, in practice a particular definition can be uncertain. At least, there may be sufficient ground for argument.

#### Voting

Stoll Theatres has a capital of £1,601,934 in ordinary stock and £80,000 in management stock. The ordinary is a quoted security and publicly held; the management stock derives from the founder, the late Sir Oswald Stoll, and his desire that his theatre empire should in the last resort remain under his control.

Voting on a poll is based on 4s units of stock, each unit carrying one vote. The management stock collectively confers on the holders the right to as many votes as shall be equal to the number of votes at a poll conferred on the ordinary, and each management holding confers the right to a rateable proportion of the votes thus collectively conferred.

The company was registered in 1928 and it would appear that not until 1962 has it been felt necessary to use the management stock voting power. The occasion was an extraordinary resolution for the removal of a director at the recent annual meeting. The meeting, in the parlance of the day, was 'noisy'. One director (not the one whose removal was proposed) was described in the Press as having been 'howled down'.

71

The weight of the management vote was put in favour of the removal resolution which was declared carried by 9,234,420 votes to 314,786 votes.

#### What They Mean

Other resolutions were left to the decision of the ordinary voting. Such was the feeling at the meeting that shareholders, on a show of hands, actually took the probably unprecedented step of voting against the payment of the dividend and special capital distribution. On the poll, voting for the adoption of the accounts was 1,409,473 in favour and 157,378 voted against. The board had the benefit of proxies; the opposition did not seek proxies.

The issue fundamentally was whether the board was making the best of its opportunities of property development. The director removed maintained that board policy was lacking on that count and the

crowded meeting supported him.

The removed director now says there are 'serious grounds for doubting the legality of the poll' and solicitors have been instructed to issue a High Court writ for a declaration that the extraordinary resolution was null and void. The contention would appear to be that the management voting right was that number of ordinary votes actually recorded in the poll, and not the number that could have been polled had every ordinary vote been used.

Which, applying the lesson generally, emphasizes how important it is to know what the articles really

do mean - not what they may seem to mean.

#### Congratulations

MOST company chairmen, it is to be hoped, give the secretaries and accountants in their organizations a pat on the back for services rendered but few go so far as Sir Ambrose Keevil, chairman of Fitch Lovell, who has made his remarks to secretaries and accountants in the group available to the

Congratulating his staff on the completion of the accounts of the seventy companies of the group within five weeks of the end of the year, Sir Ambrose said, 'experience shows that when profit and loss accounts are promptly rendered a company is

healthy'.

'A company', he went on, 'is like a line of production in a factory; every one has a part to play in the finished product, and if one part breaks down the whole line fails. Your part has well and truly functioned . . . never forget, you render your finest service to your fellow men and women by doing your daily work to the best of your ability, with diligence, unselfishness and enthusiasm.'

# STOLL THEATRES CORPORATION LIMITED AND SUBSIDIARY COMPANIES CONSOLIDATED BALANCE SHEET AS AT 31st DECEMBER, 1%1

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1961
November,
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made
are
Company
one Subsidiary
ğ
(The Accounts

Issued Capital of Parent Company:	ч	<b>J</b>	Fixed Assets:	ų.	ų	
1,601,934 80,000 1 677,916 677,916		, , , , , , ,				
677,916	_	1,601,934	Freehold, Heritable and Leasehold Properties and Contents:			
677,916 677,916 225,264	1,681,934	1,681,934	in 1958, plus		5,388,093	
677,916 225,264	862,774	764,396	Less: Depreciation and Amortisation	-	251,268	
677,916	17,683	18,577	Furnishings, Equipment, etc.—not included above	4,849,210	5,136,825	
225,264		916'119	Net book amount at 1st January, 1948, plus additions 30,706			
	903,180	227,412	: : : : : :	22.996	13.189	
*E	3,465,571	3,304,235	Letters Patent at nominal value 100	Ì	00/	•
Income Tax 1962/63	141,759	151,729		4,872,306	5,150,114	
Minority Interests in Subsidiary Companies  ,8	,817,632	1,768,369	Trade Investments:			
3½% Mortgage Debenture Stock—Secured	479,937	508,845	larket Value £42,187: 1960 £33,906)		22,255	
Current Liabilities and Provisions:	-		Unquoted 45,642 Associated TeleVision Limited (Estimated Market Value	_	45,642	
Bank Overdrafts 93,772		348,382	£1,496,000)	ļ	1	-
and Accrued Charges		760,786		. 67,897	67,897	-
Taxation 292,994		288,655	Securities and Cash held by Debenture Trustees			
Proposed Dividend and Capital Distribution to Minority Shareholders of Subsidiary Company 117,921		81,357	British Government Securities (Market Value £53,463) 77,829		72,830	_ ,
	-	. !	tion Loan tion		1	_
:		103,018	Cash 25,610		132	
Proposed Distributions out of Capital Profits 84,097		42,048		333,439	72,962	
1,25	1,294,006	1,624,246	Current Assets:			
•	5		Productions in Hand		105,403	
			Debtors and Prepayments 283,299		266,997	
		-	Estimated Amount Receivable on Liquidation of Sub- sidiary Company 14,000		12,000	
			Life Assurance and Leasehold Redemption Policies (Surrender Value £236,661)		209,017	
			ket Value £400,050: 1960 £383,190) 3		375,412	
		<u> </u>	Unquoted		120,000	
					200,000	-
					717,022	•
				1,925,263	2,066,451	
61,19	7,198,905	£7,357,424		57,198,905	£7,357,424	

# STOLL THEATRES CORPORATION LIMITED AND SUBSIDIARY COMPANIES

# CONSOLIDATED PROFIT AND LOSS ACCOUNT-Year ended 31st December, 1961

7 0961	536,355	140,359 16,937 488 42,221	200,005	102'1	£744,061	311,930	5,000	10,102	217,502			£564,534
પા	493,173		217,251	6,987	£717,411	266,963	11	7,324	227,412			£501,699
ч		150,015 17,701 575 48,960										
	Trading Profit, Property Revenue and Sundry Receipts Dividends and Interest:	Trade Investments		Profit on Purchase of 3½% Debenture Stock (of a Subsidiary Company)		Profit for the year brought down	Surpluses Arising Emoluments for 1959 walved by Executive Director Premium on Lease	Taxation Adjustments relating to prior years	Balance brought forward from last year—Group Interest			
9 41	\$ 6									mo 10		12121
3 0961	14,746	3,030 3,030 450 19,957	66,032	252,799 56,975	309,774	£744,061	116,058		105,000	98,118	109,403	227,412
761		3,077 18,174 3,037 3,036 		252,799		£717,411 £744,061	107,417 116,058	_	105,00	98,118 4,906		225,264 227,41 £501,699 £564,5:
		-		236,916 252,799 61,608 56,975								191
4	12,852	-					107,417 <i>I</i>	-	99,000			191
4	12,852	-					107,417 <i>I</i>		99,000		103,434	191
4	26,109 2,500	-		236,916 61,608			107,417		16,000		103,434	191

# STOLL THEATRES CORPORATION LIMITED

# NOTES ON THE ACCOUNTS

The movements in these Reserves consist of surpluses on realisation of properties £117,793, on realisation of trade investments £198,515, and on liquidation of a Subsidiary £1,530, the apportionment of these surpluses to minority shareholders of a Subsidiary £135,363 and the proposed capital distribution by the Parent Company of £84,097. 2. Net Surplus on Consolidation—Consolidated Balance Sheet

1. Capital Reserves-Consolidated Balance Sheet

- The movement on this Reserve of £894 represents premiums paid on further acquisitions of shares in a Subsidiary Company.
- Mr. D. M. Leapman, a Director, has instituted legal proceedings against the Company making claims for substantial sums for services to the Company; these claims are not admitted and steps are being taken to defend the action, m,

#### CITY NOTES

EARLY stock-market reaction to the recent sweeping Ministerial changes was cautious in the extreme. Marking up of prices failed to attract new buying in equity sections to any degree and prices eased back.

The Government changes in themselves cannot have investment impact until they are seen in terms of new policies and programmes. Inevitably, the assumption is that the change of Chancellor of the Exchequer heralds a less restrictive and more expansion-minded economic policy, but it may be the autumn before the new Chancellor sees his way clearly enough to put any new policies into action. At least he takes office against the background of an improving trade and balance of payments situation, both of which owe something to the policies of his predecessor.

While it is agreed that re-expansion in the economy may be desirable, the City will watch for any sign that such a policy is being undertaken for political ends, rather than from the aspect of economic common sense.

A repetition of the exercises of 1958 and 1959 will be greeted, undoubtedly, with concern and possibly with suspicion – and not only in the City. The stockmarkets are already indicating a 'once bitten, twice shy' attitude on the part of the public.

#### RATES AND PRICES

Closing prices, Wednesday, July 18th, 1962

	iesauy, July 10th, 1902							
Tax Reserve Certificates	: interest rate (28.4.62) 21%							
Bank Rate								
Oct. 27, 1960 5½%	Nov. 2, 1961 6%							
Dec. 8, 1960 5%								
July 26, 1961 7%	Mar. 22, 1962 - 5%							
Oct. 5, 1961 61%	April 26, 1962 $4\frac{1}{2}\%$							
	ury Bills							
May 11 £3 198 8.71d%	June 15 £3 145 4.01d%							
May 18 £3 17s 1.04d%	June 22 £3 16s 11.8d%							
May 25 £3 16s 3.81d%	June 29 £3 18s 5.03d%							
June 1 £3 158 7.98d%	July 6 £3 18s 0.63d%							
June 8 £3 15s 0.28d%	July 13 £3 178 9.32d%							
Money Rates								
Day to day 27-37%	Bank Bills							
7 days 23-37%	2 months 4 16-41%							
Fine Trade Bills	3 months 4 16-418%							
3 months $5\frac{1}{2}-6\%$	4 months 4 18 4 18 %							
4 months $5\frac{1}{2}-6\%$	6 months 4 18 4 18 %							
6 months 5\frac{3}{2} -6\frac{1}{2}\%	4 18 4 18 70							
Foreign Exchanges								
New York 2.80%	Frankfurt 11·183							
Montreal 3 02 18								
Amsterdam 10.08	Oslo 20.03 §							
Brussels 139.61½	Paris 13.75 }							
Copenhagen 19.37½	Zürich 12·11½							
Gilt-	-edged							
Consols 4% 643	Funding 3% 59-69 87							
Consols 2½% 42½	Savings 3% 60-70 84½							
Convision 51% 1974 958	Savings 3% 60-70 84½ Savings 3% 65-75 74½							
Conversion 5% 1971 941	Savings 21% 64-67 88 18							
Conversion 3½% 1969 89₹	Treas'ry 5½% 2008-12 93							
Conversion 3½% 57 18	Treasury 5% 86-89 857							
Exchequer $5\frac{1}{2}\%$ 1966 101 $\frac{3}{32}$	Treasury 3½% 77-80 73½							
Funding $5\frac{1}{2}$ % 82-84 93 $\frac{1}{16}$	Treasury 3½ % 79-81 72½							
Funding 4% 60-90 901								
Funding 31% 99-04 621	Treasury 2½% 42½ Victory 4% 96½							
runuing 38% 99-04 028	VICTORY 4% GOTA							

# Correspondence

Funding 3% 66-68

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

#### **Materials and Labour Variances**

SIR, — It is one thing to admit to ignorance in private; it is another to demonstrate it in public. To save my blushes, therefore, may I ask for your indulgence for signing this letter with a pseudonym.

In his article in your issue of July 7th, Mr R. N. Parker gives an example:

 $\begin{array}{c|ccccc} & Units & Price & Value \\ Actual & 1,100 & at & 21s & = & £1,155 \\ Standard & 1,000 & at & 20s & = & £1,000 \\ \hline & 100 & 1s & & £155 \end{array}$ 

Treating this example as relating to materials (though, mutatis mutandis, his remarks had similar application to labour), Mr Parker considered it correct to break the variance of £155 down as:

Usage variance
Price variance
Joint variance  $\frac{100 (100 \times 20s)}{50 (1,000 \times 1s)}$   $\frac{5}{5} (100 \times 1s)$ 

He disapproved of combining the joint variance with the price variance as a single (price) variance of £55 because, he said, this would assume that the buying department was accountable not only for a rise in price but also in some measure for materials being used in excess of standard.

War Loan 31%

57<del>1</del>

Even if his algebra leaves me dizzy, I follow the trend of Mr Parker's argument, but I am unable to appreciate the force of his conclusions when one applies it to the practical business of communicating and explaining variances to management so that they can do something about them. This, as I see it, is what variances are for I see no future in subdividing variances for fun.

Starting from the basis that the standards are correctly set, I would surely be justified in reporting to management, on the example given, in the following sense:

(a) The buyer's job is to buy what we want at the right price. If we want more than we ought to, that is not his affair. He has bought 1,100 units

at is each more than the proper price. This is the direct cause of our losing £55, whatever the use to which we put the materials which he bought.

(b) The works' job is to obtain a given volume of output from a given quantity of material. They have used 100 units more than they should have done. If the buyer had done his stuff, these units would have cost us £100 and this is the measure of the loss which is within the direct control of the works.

So far as (b) is concerned, it is no part of the works' responsibility that the buyer did not do his stuff. That is the buyer's fault and the resulting loss of  $f_{.5}$ has therefore been charged against him, as price variance, under (a).

I can see no excuse for going to management and saying that the £5 is a joint variance, due partly to bad buying and partly to bad production - and here

is a bit of algebra to prove it.

If I were to do this I would surely get the answer when shorn of its more exotic phrases - that buying occurs before usage and that buying at the wrong price occurs before usage in the wrong quantities.

Buying at the wrong price causes a definite loss to the company irrespective of the quantities subsequently used. This loss should be exposed and pursued at the earliest possible moment.

So if I think I can get away with trying to charge

up to the works part of a loss caused entirely by that tomfool buyer, then Heaven help me next time I want a job done on my car in the works garage.

And, as to my bit of algebra . . . Or am I wrong? Yours faithfully,

AT VARIANCE.

Sir, - Mr Parker (article July 7th issue) is right - in theory. Unfortunately, the problem gets out of hand as the number of separate causes of variation increase.

Let us take sales variances, of which the Terminology of Cost Accountancy (Institute of Cost and Works Accountants, 2s 6d) lists three and a total. On the theory we should have:

Single variances: price; allowance (discounts and rebates); mix.

Joint variances (double): price and allowance; price and mix; allowance and mix.

Joint variances (treble): price, allowance and mix.

The total comes to seven. The algebra is the same in principle as Mr Parker's, and the graph is a box instead of an oblong.

The Terminology lists twenty cost variances. Fortunately they are not all applicable at once to any particular cost. Unfortunately there are some which are not specifically mentioned.

Take overheads. The Terminology lists four:

Item 3.416 Calendar variance.

3.417 Volume variance.

3.418 Efficiency variance.

3.420 Method variance (which it considers as part of 3.419 - the total cost variance; evidently a change of method can and usually does affect the overhead).

The Terminology does not list a further two as part of the overhead variance (3.415), although clearly they affect it:

Price variance: This is different from the efficiency variance, in the same way as the material price and usage variances are different.

Mix variance: Most costing systems use average departmental overhead rates, and these are changed by a different mix of the various departmental processes, even though the volume is unchanged.

There are six independent causes of variation; and this means sixty-three separate single and joint variances. (Students of the Pools will be accustomed to calculating the various combinations, but there is a short cut. If there are n causes, the number of separate variances is  $2^n-1$ . Had the twenty causes of variance all been able to act at once, we should have had to list 1,048,575 different single and joint variances.)

Sixty-three overhead variances is far too many for the list of figures to convey any coherent story to anyone. So, in spite of the theory, we have to agree some sort of convention on the sequence in which the variances are considered, even though the answer will not be right. In other words, if an oblong is increased in size due to an increase in both length and breadth, we must consider the increases in areas as due either to:

(i) increase in length at standard breadth; and then

(ii) increase in breadth at the increased length; or the other way round.

Of course, if we use marginal costing, there is no volume variance; and, if we use individual processhour rates (including machine-hour rates), there is no mix variance. Everything becomes more manageable - although fifteen separate and joint variances is still rather too many; and this is one of the merits of these two techniques to those who believe, with me, that the paramount need of cost accountancy is clarity and accurate measurement.

London SW1.

Yours faithfully, D. R. C. HALFORD.

#### Tax Allowance: Specialist's Home Telephone

SIR, - Can any of your readers please say what can be claimed for tax purposes in respect of the home telephone of a medical specialist who holds an appointment at a large hospital, when one of the conditions of his employment is that he shall have a telephone at this private residence?

Yours faithfully, EMERGENCY.

[The specialist is entitled to an allowance for expenses wholly, exclusively and necessarily incurred in the performance of his duties. His employers clearly regard it as necessary that he shall provide a telephone at his home and therefore he should claim an allowance equal to the rent plus the cost of calls applicable to his hospital appointment. - Editor.]



# Eighth International Congress

## NEW YORK, SEPTEMBER 23rd-27th

THE Eighth International Congress of Accountants opens in New York on September 23rd and registrations are already in the region of 3,000. Of this number, over 1,800 are members of the profession from overseas and rather more than 1,000 are United States accountants. The total attendance, including ladies, is expected to exceed four thousand.

As already announced, the central theme of the

Congress will be the relationship of accounting, auditing and financial reporting to the world economy. These subjects are to be treated both as techniques for communicating information to shareholders, bankers, Governments and other interested parties, and as tools of internal management and control. The Congress President will be Mr Arthur B. Foye, a Past President of the American Institute of Certified Public Accountants.

# Congress Programme

We set out below details of the full programme for the Congress:

#### Sunday, September 23rd

Optional Church Services for Registrants

- (a) St Patrick's Cathedral, 10 a.m. High Mass arranged by Catholic Accountants' Guild of New York.
- (b) St Bartholomew's Church, 4 p.m. Protestant service with choral and religious music for Congress registrants.
- (c) Temple Emanu-El, 4 p.m. Special choral service for Congress registrants.

Congress Reception followed by a Buffet Supper, 6 to 10 p.m., Waldorf-Astoria

For the comfort of the large number of guests expected, tickets in registration folders will indicate the room to which registrants have been assigned for the reception. Each room will be a self-contained reception with a Congress officer and his wife as the official host and hostess assisted by other United States accountants and their wives. At any time during the evening members and their ladies will be free to move about from room to room.

#### Monday, September 24th

Opening Plenary Session, 9 a.m. to 11.45 a.m., Grand Ballroom, Waldorf-Astoria

Presiding: Mr Arthur B. Foye, President, Eighth International Congress of Accountants.

Speakers: Sir Harold Howitt (England); Mr J. Kraayenhof (Netherlands); Mr Arthur K. Watson, President, I.B.M. World Trade Corporation (United States); Mr P. F. S. Otten, Chairman, Philips' Gloeilampenfabrieken (Netherlands).

Also on the Platform: Congress officers, heads of delegations of the United States sponsoring organiza-

Tickets are not provided for this session, as the Congress badge will admit members to the Ballroom. Because of space problems, this session is for accountants only.

Accountants' Luncheon, 12.45 to 2 p.m., Grand Ballroom, Waldorf-Astoria

Celebrity Luncheon for Ladies, 1 to 3 p.m., Imperial Ballroom, Americana Hotel

Mrs Alvin R. Jennings, Chairman of the Ladies' Committee, will preside, and the speakers will be women prominent in business and the arts.

Technical Session, 2.30 to 4.30 p.m.

Members will be assigned to one of fifteen simultaneous sessions and their tickets will indicate the session and its location. At each session three papers – one on auditing, one on accounting and one on financial reporting – will be presented.

#### Evening Entertainment

(a) Concert by the Philadelphia Orchestra, 8.30 p.m., Carnegie Hall.

The Philadelphia Orchestra, under the direction of Eugene Ormandy, will give a programme ranging from Beethoven's Symphony No. 5 to Ned Rorem's composition Eagles. The latter, a contemporary United States composer, will be present at the concert and will be introduced to the audience.

(b) Concert by Duke Ellington and his Jazz Orchestra, 8.30 p.m., Town Hall.

Duke Ellington will present a programme of American music from its folk origins to the intricate inventions of progressive modern jazz.

(c) Motion Picture and Stage Show, 7.30 p.m. Radio City Music Hall.

#### Tuesday, September 25th

Technical Discussion Sessions, 9 a.m.

These sessions will be held in boardrooms or conference rooms of various New York companies. Each member will receive in his registration folder a ticket for the session to which he has been assigned. Also in the folder will be an instruction sheet giving further details about the session, its location and a list of the participants.

Ladies' Luncheon and Fashion Show, I to 3 p.m., Grand Ballroom, Waldorf-Astoria

Seating at the luncheon will be informal although there will be a United States hostess at each table.

Meeting of Chairmen of Delegations, 2.30 to 5 p.m., Sert Room, Waldorf-Astoria

Open only to the chairmen of delegations and two members of their delegation selected by them.

Official Delegates' Dinner, 7 to 10 p.m., Ballroom, Hotel Pierre

The Delegates' Dinner, owing to the size of the Pierre Ballroom, is limited to those who have been designated 'official delegates' by their organizations in accordance with the allocation granted to each by the Congress Organizing Committee. Dress for the dinner will be full evening dress or dinner jacket, with honours and decorations.

#### Roosevelt Raceway

Many registrants have elected to attend the harness races at the evening meeting of the Roosevelt Raceway.

#### Metropolitan Museum of Art

Special showing of the American Wing, Great Hall and Renaissance Art Collection at the Metropolitan Museum, between 7 and 10 p.m.

#### Wednesday, September 26th

This will be an open day for members of the Congress to spend as they wish, or to join the tours, listed below, which are arranged both for the morning and afternoon.

Boat around Manhattan Island

Duration two hours and forty-five minutes.

Sightseeing Tour of the City

Duration three hours.

Garden Tour

Duration about four hours.

#### Industrial films

A continuous showing of industrial films will be conducted in the Jade room of the Waldorf-Astoria from 10 a.m. to 5 p.m. for those who may be interested.

#### Thursday, September 27th

Closing Plenary Session, 9 a.m. to 12.30 p.m., Grand Ballroom, Waldorf-Astoria

Presiding: Mr Arthur B. Foye, President, Eighth International Congress of Accountants.

Speakers: Mr Paul Grady, Chairman, Technical Session Committee; Mr Frederick G. Donner, Chairman of the Board, General Motors Corporation; Mr J. C. Stewart, President, The Institute of Chartered Accountants of Scotland.

Also on the Platform: Chairmen of various Congress subcommittees.

Congress Grand Ball, 9 p.m. to 1 a.m., Waldorf-Astoria Dancing to the music of Glenn Miller's Orchestra under the direction of Ray McKinley will start at 9 p.m. in the Grand Ballroom of the Waldorf. After midnight, a light buffet supper will be served.

### Delegations from Great Britain and Ireland

We give below the names of the official delegates attending the Congress from the accountancy bodies in Great Britain and Ireland, with details of those who are to present papers or who will otherwise be actively participating in the proceedings.

# The Institute of Chartered Accountants of Scotland

Official Delegation

Chairman: The President, Mr James C. Stewart, C.A. Vice-Chairman: The Vice-President, Mr W. L. Milligan, J.P., B.A., C.A.

Professor D. S. Anderson, M.A., C.A. (former member of the Council); Messrs G. D. H. Dewar, C.A. (member of Council); James T. Dowling, C.A. (Past President); A. I. G. Farquharson, C.A., A.C.W.A. (member of the

Institute's Examining Board); James R. Gellatly, C.A. (member of Council); J. G. Girdwood, C.B.E., C.A. (former member of Council); Alexander McKellar, C.A. (Past President); J. T. H. Macnair, M.C., B.A., C.A.; H. Forbes Murphy, C.A. (Convener of the Institute's Apprentices (Policy) Committee); C. G. M. Pearson, C.A. (former member of Council); G. I. Stewart, C.B.E., M.C., C.A. (Past President); Graham A. Usher, M.B.E. (MIL.), T.D., C.A. (Past President); E. H. V. McDougall (Secretary of the Institute).

The President has been invited to speak on behalf of overseas participants at the concluding session.

Professor Anderson will present a paper on 'Communications: Problems facing a practising accountant as a financial reporter'.

In addition to the delegates, approximately one hundred members of the Institute, with their ladies, will be attending the Congress.

## The Institute of Chartered Accountants in England and Wales

Official Delegation

Chairman: The President, Mr Percy F. Carpenter, F.C.A.

Vice-Chairman: Sir Thomas Robson, M.B.E., M.A., F.C.A. (Past President and Chairman of Overseas Relations Committee).

Messrs W. L. Barrows, LL.D., F.C.A. (Past President); T. A. Hamilton Baynes, M.A., F.C.A.; H. A. Benson, C.B.E., F.C.A.; Sir William Carrington, F.C.A. (Past President); Messrs D. A. Clarke, LL.B., F.C.A.; W. G. Densem, F.C.A.; S. Dixon, M.A., F.C.A.; S. M. Duncan, F.C.A. (Vice-Chairman, Taxation and Research Committee); Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., LL.D., D.L., F.C.A. (Past President); Mr R. O. A. Keel, F.C.A.; Sir William Lawson, C.B.E., B.A., F.C.A. (Past President); Messrs R. B. Leech, M.B.E., T.D., F.C.A.; R. P. Matthews, B.COM., F.C.A.; G. P. Morgan-Jones, M.A., J.P., F.C.A.; W. E. Parker, C.B.E., F.C.A.; S. John Pears, F.C.A. (Past President); L. W. Robson, F.C.A.; J. D. Russell, M.A., F.C.A.; D. Steele, F.C.A.; J. E. Talbot, F.C.A.; Miss E. Watts, B.A., F.C.A. (Past Chairman, Women Chartered Accountants' Dining Society); Messrs F. J. Weeks, F.C.A.; E. F. G. Whinney, M.A., F.C.A.; J. C. Montgomery Williams, F.C.A.; Robert P. Winter, C.B.E., M.C., T.D., D.L., F.C.A. (Vice-President); E. K. Wright, M.A., F.C.A.; Alan S. MacIver, C.B.E., M.C., B.A. (Secretary); C. A. Evan-Jones, M.B.E. (Under-Secretary).

Three members are presenting papers; they are: Mr H. A. Benson on 'Auditing and the world economy'; Mr R. O. A. Keel on 'Financial reporting and the world economy'; and Mr W. E. Parker on 'Accounting and the world economy'.

Sir Harold Howitt, who was President of the Sixth International Congress held in London in 1952, has accepted an invitation from the President of the Congress this year to reply to the opening address of welcome.

Mr G. P. Morgan-Jones will be Vice-Chairman of a Technical Session.

Although some 800 members of the Institute originally expressed an interest in attending the Congress, many have now found that it will not be possible for them to make the trip; the final number of registrants, many of whom will, of course, be accompanied by their ladies, may not exceed half the above figure.

# The Institute of Chartered Accountants in Ireland Official Delegation

Chairman: The President, Mr R. E. McClure, M.B.E., F.C.A.

Vice-Chairman: Mr John Love, F.C.A. (member of Council).

Messrs H. W. Robinson, B.A.(MOD.), LL.B., F.C.A. (member of Council) and W. S. Orr, B.A., LL.B., A.C.A. (Secretary of the Institute).

The President has accepted an invitation to act as vice-chairman at one of the technical sessions.

Mr Robinson is to present a paper in the section on 'Financial reporting and the world economy'.

About twelve members of the Institute, with their ladies, expect to attend the Congress.

# The Association of Certified and Corporate Accountants

Official Delegation

Chairman: The President, Mr E. Spencer, F.A.C.C.A.

Vice-Chairman: The Immediate Past President, Mr G. L. Barker, F.A.C.C.A.

Messrs V. R. Chennell, F.A.C.C.A. (Vice-President of the Association); J. E. Harris, B.COM., F.A.C.C.A. (Past President); Lord Latham, J.P., F.A.C.C.A. (Past President); Messrs C. R. Poole, F.A.C.C.A., F.I.M.T.A.; and F. C. Osbourn, M.B.E., B.A., LL.B. (Secretary of the Association).

Lord Latham is to be a vice-chairman of a technical session.

Mr Harris will submit a paper on "The purpose and principles of accounting'.

Approximately 150 United Kingdom and overseas members of the Association, together with their ladies, will be attending the Congress.

# The Institute of Municipal Treasurers and Accountants

Official Delegation

Chairman: The President, Mr Norman Doodson, F.I.M.T.A., F.S.A.A.

Vice-Chairman: The Vice-President, Mr G. C. Jones, F.C.A., F.I.M.T.A.

Messrs H. Keeling, F.I.M.T.A.; I. M. Cowan, M.B.E., F.I.M.T.A., F.S.A.A.; L. F. Cheyney, O.B.E., F.I.M.T.A., F.S.A.A. (Secretary of the Institute).

ALTERNATES: Messrs H. R. Page, M.A.(ADMIN.), F.I.M.T.A.; E. L. Jones, F.I.M.T.A.; H. Hayhow, O.B.E., F.I.M.T.A., F.S.A.A.; Richard Davis, F.I.M.T.A.

Mr Doodson is to submit a paper on 'Accounting in the public sector'.

About fifteen other members, with their ladies, hope to accompany the official delegates.

# The Institute of Cost and Works Accountants Official Delegation

Chairman: The President, Mr W. Bishop, c.A., F.C.W.A.

Vice-Chairman: Mr Ian T. Morrow, C.A., F.C.W.A. (Past President).

Messrs J. F. Body, F.C.A., F.C.W.A.; A. R. Hague, F.C.W.A.; J. L. Hilton, F.C.W.A., M.B.I.M.; W. L. Spalding, B.Sc. (ECON.), C.A., F.C.W.A., F.C.I.S. (Chairman, Education Committee); Derek du Pré (Secretary of the Institute).

ALTERNATES: Messrs W. A. Harvey, B.COM., C.A., F.C.W.A.; H. T. A. Hastie, C.A., F.C.W.A.; J. A. P. Coe, F.C.W.A.; E. A. Corbett, A.C.W.A.; L. C. Kelvin, A.C.W.A.; H. N. Wadsworth, A.C.W.A.

The President has been invited to be vice-chairman of one of the technical sessions.

Mr Morrow will present a paper on 'The need for special reports'.

About thirty members of the Institute, with their ladies, expect to attend the Congress.

# Electronics in the Office

#### Computer for Graduated Pensions Scheme

A COMPUTING system for processing data for the Government Graduated Pensions Scheme, in a new computer building in the central office of the Ministry of Pensions and National Insurance at Newcastle upon Tyne, was inaugurated by Queen Elizabeth, the Queen Mother, on July 2nd.

Based on an EMIDEC 2400, described by the manufacturers, E.M.I. Electronics Ltd, as one of the most powerful in Europe, the system has many novel features and the high computing speeds, combined with flexibility of input and output equipment, make it ideal to cope with the problems which the scheme involves.

Although it is expected that eleven million people will have paid contributions to the Graduated Pension Scheme in the first year, the computer's magnetic tape files will additionally contain records for over twenty-six million insured persons under the general national insurance scheme, and about one million new accounts will be inserted into the files each year.

The files contain information about each insured person, such as national insurance number, name and address, date of birth and graduated contributions paid. The file containing contribution details will be searched every two days in order to extract information about persons approaching retirement age or retiring after that age. Nearly forty million contribution items and changes of circumstances will be entered in the files each year.

The system uses twenty-four EMIDATA magnetic tape decks. To speed the flow of information from the computer, an ultra high speed Rank Xeronic printer, capable of producing 3,000 lines a minute, is used.

#### **Course on Computers**

LECTRONIC computing systems' will be the Sir John Cass College, Jewry Street, Aldgate, London EC3, commencing on October 24th. Two lectures will be given each evening, the first from 6.15 p.m. to 7.15 p.m. and the second from 7.30 p.m. to 8.30 p.m.

The course is intended for executives and others interested in the commercial applications of computers. No prior technical knowledge will be assumed. The first part of the course will consist of twelve lectures on 'The construction and operation of electronic digital computing systems designed for commercial purposes' and will give an appreciation of the operation and programming of computers in general. Part II of the course, which will begin on January 16th, 1963, will comprise twelve lectures on 'Some commercial applications of electronic digital computing systems'.

The fee for the course is £1 and applications to attend should be made to the secretary of the College, prior to the opening date of the course.

#### Mail Order Mechanization

THE chain store division of Littlewoods Mail Order Stores Ltd is to use an N.C.R. 315 computer to control the distribution of merchandise and keep its financial accounts. The installation, which will be situated in Liverpool, will cost about £180,000.

One of the computer's main tasks will be to maintain sales and stock records for the company's seventy stores. It will then use the information to determine the best ways to distribute available stocks of different lines. This operation will take into account a variety of factors, from changes in fashion to the assembly of economic transport loads. When fully developed, the system is expected to be one of the most advanced of its kind. In parallel with the preparation of delivery notes and other documents, the 315 will also produce up-to-date trading records and sales statistics, and will calculate the profit percentage on individual lines.

The records of these operations will be stored in CRAM, the computer's Card Random Access Memory, which employs magnetic cards housed in interchangeable cartridges.

The use of this system of storage will also reduce the size and cost of the installation. Suppliers' records and stores' trading records will be held in a single CRAM cartridge, which measures only a few inches in all dimensions.

#### Bank Adopts 13B System

LOYDS bank has placed an order with Burroughs Machines Ltd for a data processing system which envisages the automation of their clearing departments.

Known as the B.271, the system incorporates central computers, magnetic character sorter/readers and high-speed multi-tape listers. The sorter/reader sorts cheques at a speed of 1,500 per minute, supplies input to the central computer from which output is by means of the high-speed multi-tape lister which lists and adds cheques at the same rate. Also included is encoding equipment which will inscribe the amount on completed cheques in magnetic ink characters.

The delivery of the B.271 equipment is phased to coincide with the progressive circulation of magnetically-encoded cheques. The significance of this decision by Lloyds is that all cheques issued by the bank will, in due course, be magnetically encoded as to the amount so that eventually they may become the automatic instruments of customer accounting. The E-13B common machine language was adopted by the London clearing banks in November 1960.

#### Computer System for B.O.A.C.

PRITISH OVERSEAS AIRWAYS CORPORA-TION has ordered from IBM United Kingdom Ltd a data processing system to be installed at London Airport. The system comprises an IBM 1410 computer, with RAMAC random access disc storage, and an IBM 1401 computer in support. Magnetic tape units in the system will be switched between the two computers.

The applications to be handled by the installation include revenue accounting, payroll, flight operations, and control of engineering stores. The 1401 system will be installed in November 1963 and the 1410 system in February 1964.

# Taxation Cases

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the Annotated Tax Cases'.

# Thomas McGhie & Sons Ltd v. British Transport Commission

In the High Court of Justice (Queen's Bench Division)
April 11th, 1962

(Before Mr Justice PHILLIMORE)

Income tax – Profits tax – Non-working of mine – Compensation therefor – Whether for loss of profits or for capital asset – Whether tax liability to be taken into account – Railway Clauses Consolidation Act, 1845, sections 77, 78A – Mines (Working Facilities and Support) Act, 1923, section 15.

The applicant, the lessee of minerals under the area of protection of a railway, gave notice to the respondent of its intention to work the minerals. The respondent served a counter-notice, and the effect thereof was to prohibit the applicant from working 94,338 tons of gypsum and anhydrite. The applicant accordingly became entitled to compensation under section 78 of the Railway Clauses Consolidation Act, 1845, and the question of the amount of compensation was the subject of an arbitration. It was admitted that the profit which the applicant would have made on a sale of the minerals would have been £87,135. It was also admitted that the applicant would not be liable to income tax or profits tax in respect of the compensation therefor; and that if the applicant had been liable to those taxes, the amount would have been £42,478 6s 3d. The arbitrator decided that that sum should be deducted from the £87,135, and he awarded the applicant £44,656 13s 9d.

On appeal to the High Court the applicant contended that no liability to income tax or profits tax should have been taken into account by the arbitrator, because the compensation was for a capital asset and not for loss of profit.

Held: that section 78 of the Railway Clauses Consolidation Act, 1845, as substituted by section 15 of the Mines (Working Facilities and Support) Act, 1923, gave compensation, not for the value of the sterilized minerals, but for what the mine-owner would have made out of the minerals, if he had not been

prohibited from working them; and that accordingly the incidence of taxation had been rightly taken into account by the arbitrator in arriving at the amount of the compensation.

#### C.I.R. v. Coutts & Co (Stanhope's Trustees)

In the Court of Appeal - April 17th, 1962

(Before The Master of the Rolls (Lord Evershed), Lord Justice Upjohn and Lord Justice Diplock)

Estate duty – Exemption – Settled property – Duty paid on death of spouse – Surviving spouse's life interest in whole income – Whether duty on second death would be payable in respect of same property – Competency to dispose – Whether part of settled estates non-exempted – Finance Act, 1894, sections 1, 2 (1) (b), 5 (2), 16 (3) – Finance Act, 1914, section 14.

In 1914, on the occasion of the marriage of the deceased, some freehold and leasehold property was settled so that the deceased was entitled to a rentcharge of £200 a year, and then to the deceased's husband for life, and afterwards so that the deceased should have a larger rent-charge, and then to other uses, the last of which was for the husband in fee simple. The deceased's husband died in 1916, having left his residuary estate to the deceased, and included in his residue was the ultimate trust under the 1914 settlement. Estate duty was paid on his death in respect of all the property then comprised in that settlement, subject to a deduction of a notional slice to produce the £200 a year. In 1923, the deceased made a voluntary settlement, and thereunder she received for life all the income of the property settled in 1914.

On the death of the deceased the defendants claimed that no estate duty was payable in respect of the settled property, as the duty had been paid on that property on the occasion of her husband's death in 1916. It was contended that what passed on the death of the deceased in 1957 was the property within the 1914 settlement. It was contended on behalf of the Inland Revenue that what passed on her death was her interest in the 1914 settlement; and, alternatively, that at any rate a 'slice' of the settled property representing the £200 a year was not exempt on the death of the deceased, because duty had not been paid on it on her husband's death in 1916.

Held (affirming the judgment of Mr Justice Buckley): the settled property was exempt from estate duty on the deceased's death; but that a 'slice' of that property representing the £200 was liable to duty.

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#### FOR STUDENTS

#### TRADERS' PAYMENTS

FOR twenty years or more business concerns have been settling their accounts by credit transfers and during the last ten years this practice has almost trebled, with the result that in April 1960 the banks introduced a credit clearing system on the same lines as the cheque clearing system. Over the past year emphasis has been placed on the facilities available to the individual to settle his accounts by this method.

A credit transfer consists simply of an instruction made to a bank by a customer, whether he has an account or not with the remitting bank, to place a certain sum of money to the credit of another customer either of the same or another bank.

The most common use of the system by the individual is for the payment of recurring charges such as rents, mortgage repayments, insurance premiums and professional fees.

In the case of the individual who wishes to make a transfer and who is not a customer of the bank, he will of course be requested to deposit the cash to cover the transfer along with a charge of about 6d.

To the commercial establishment the greatest benefits can be obtained by the company whose periodic payment includes small remittances made to a considerable number of creditors, or for the payment of salaries, especially where the place of work of the company's employees is widespread.

#### Mechanics of the System

The operation of the traders' credit system is comparatively simple, and briefly it is as follows:

- (1) In the place of the cheque a credit slip is used which shows:
  - (a) the name of the company or individual making the transfer;
  - (b) the name and address of the bank to which the credit is to be transferred;
  - (c) the name of the account to be credited;
  - (d) the reference number of the remitter's bank.

#### (2) The Schedule

The schedule is a list in duplicate of the credit slips giving the name of the bank to be credited, the name of the individual account and the amount to be so credited. The first page of the schedule is usually prefaced by a request to the customer's bank requesting them to distribute x number of slips amounting to y number of pounds to the credit of the accounts listed, and is signed by the authorized representative of the company. After the bank have made the distribution the duplicate copy is returned to the company duly endorsed to that effect.

(3) A cheque to cover the total of the schedule made payable to the remitting company's bank.

Most of the leading makes of accounting machines can be adapted to produce in one operation the credit slip, schedule in duplicate, the cash sheet (usually a third copy of the schedule) and to post the creditor's account. Punch cards can be used, provided that the design is approved by the bank. Except in the cases where special stationery is required (i.e. 'no carbon

required' paper) the bank will supply free of charge a standard form of credit slip and schedule.

However, before putting the traders' credit system of payment into operation in a commercial establishment, it is wise, if not in fact essential, to obtain from the creditor his written acceptance to this mode of payment. This can be obtained by sending under a covering letter explaining the advantages of this method of payment, a standard authority (copies of which can be obtained from any bank) on which the creditor states:

- (a) the name and address of the bank to be credited;
- (b) the account to be credited, i.e. No. 1, No. 2 Sales Account, etc.;
- (c) a signature by an authorized representative of the company accepting the mode of payment.

It is usual commercial practice to enclose a pre-paid envelope with this request.

#### Some of the Advantages

The main advantages to be gained through payment by traders' credit are:

- (a) To the creditor. He will receive the benefit of the credit immediately and there will be no delay as often arises between the creditor receiving the cheque and depositing it with his bank.
- (b) To the remitter:
  - (1) no duty stamp is required. Arising from this, if a credit slip is spoilt in preparation no laborious procedure to recoup the stamp duty is required:
  - (2) the cost of the credit slip is considerably cheaper than the cost of a cheque;
  - (3) in most cases there will be a saving in postages and in the cost of envelopes. In some cases, especially in the case of nationalized bodies, remittance advices will still be required;
  - (4) a considerable saving in time by the executive whose duty it is to sign cheques, as in place of an individual signature for each cheque all that is required is one signature for the cheque covering the total payments on the schedule and one signature on the schedule itself;
  - (5) the possibility of putting a cheque in the wrong envelope, or the cheque being lost in the post is obviated;
  - (6) the common cheque errors such as the words not agreeing with the figures or a lack of signature which causes delays in the accounts being met are practically avoided.

#### Disadvantages

There are, of course, a number of small disadvantages such as the remittee not receiving an immediate notification that the account has been settled or the clerical labour involved in preparing a credit advice slip being greater than that employed in preparing a cheque but the main disadvantage applies to companies who operate on an overdraft or on the verge

of one. The average length of time between a cheque being posted and the remitting company's account being debited is about four days, whereas if the payment is effected by traders' credit the total amount of the schedule is debited immediately by the bank. Therefore, assuming that the monthly pay-out is in the

region of £100,000 the cost in bank interest alone could be as much as £800 in the year.

To somewhat mitigate this heavy interest charge and still reap the benefits of the scheme a number of companies pay the majority of their accounts by traders' credit, but pay by cheque the few accounts that involve large sums of money. This has the result of only slightly reducing the number of credits but substantially reducing the total amount of the credit.

#### Remittance Advices

There are two main ways of avoiding the extra cost of sending separate remittance advices in the cases where it is not apparent to what the payment relates. (a) Type the brief details of the payment on the reverse side of the credit slip. (b) A system that is now becoming very popular is the use of a combined bank and remittance advice slip. On the face side of the form is printed a normal remittance advice which is entered simultaneously with the ledger card in the ledger posting routine. On one half of the reverse side is printed a form of bank advice. The creditor's name and address on the face side and the name and bank details on the reverse side are entered by the use of an addressing machine at the beginning of the month or accounting period. At the end of the month or accounting period the advice is extracted from the ledger and the total to be remitted to the creditor is entered in the appropriate place on the bank advice. The form is then folded with the detailed remittance advice inside and sealed. This can then be substituted for the normal bank advice slip and is sent with the schedule etc. to the bank for distribution.

#### Cost

To look now more specifically at the costs and assuming that:

(a) there is no saving on bank commission;

- (b) that the average charge made by the bank is 4d per transaction (although this figure can be reduced by arrangement with the bank if the number of transactions is large);
- (c) 500 payments a month are made totalling £50,000.
- (1) A company without an overdraft:

``. C.	heque			Traders' Credit					
Stamp duty	•	£	s 3	d 4	Stamp duty	£	s	d 2	
Envelopes Remittance	ad-	1	5	0	Bank charge	8	6	8	
vice slips			15	0					
Postage		6	5	0					
	£	12	8	4		£8	6	10	

(2) A company operating an overdraft:

$\dot{c}$	hequ	e			Traders' C	redit		
	•	£	5 -	ď		£	S	d
Stamp duty		4	3	4	Stamp duty			2
Envelopes		I	5	o	Bank charge	8	6	8
Remittance	ad~		-		Interest (at say			
vice slips			15	0	6 per cent for			
Postage		6	5	0	four days)	33	0	0
		£12	8	4		£41	6	10

Whilst the above calculations do not take into consideration such items as saving in time of executives or of the office staff putting up cheques and the postal department dealing with them and so forth, it does show that to a company operating on a healthy bank balance monetary advantages do exist, but in the case of a company operating on an overdraft then the question whether or not to operate a traders' credit system has to be decided essentially upon the question of convenience.

# Notes and Notices

#### PROFESSIONAL NOTICES

Messrs Beevers & Adgie and John Gordon, HARRISON, TAYLOR & Co, of Leeds, Messrs WILLIAM-SON, BUTTERFIELD & ROBERTS and BOYCE WELCH & Co. of Bradford, and Messrs Bottomley & Smith, of Keighley, announce the formation of a separate associated firm of chartered accountants under the name of Addie, Boyce, Gordon, Roberts & Co. The partners in the new firm will be Messrs Arthur Kenneth Gill, HARRY ANDERSON, MICHAEL GROVE CRAWFORD, M.A., JOHN MICHAEL LYTTON JAEGER, M.A., DAVID STEELE, GEOFFREY MICHAEL HOLROYDE, FRANCIS WILLIAM BOYCE, M.C., T.D., KENNETH WILFRID OXLEY and JAMES STANLEY HEATON. The firm will practise for the time being from the addresses of the five sponsoring firms and will act as successor to ADGIE, ROBERTS & Co, which now ceases to practise.

Messrs Charles Hamer & Co, Chartered Accountants, announce that their address is now 10 Dunning Street, Middlesbrough. Telephone: Middlesbrough 3529 and 43873.

Messrs Thorne, Lancaster & Co, Chartered Accountants, announce that as from the close of business on July 20th, they have moved their offices to Hillgate House, 26 Old Bailey, London EC4. Telephone: City 9901.

#### Appointments

Mr Raphael Dean, F.C.A., secretary of Dannimac (Manufacturing) Ltd, has been appointed a director of the company.

Mr O. R. Dorken, F.C.A., has been elected chairman of the British Export Houses Association.

Mr W. Hyde, F.C.W.A., A.A.C.C.A., has been appointed a member of the West Midlands Gas Board. He will continue as the Board's director of finance and administration, an appointment which he took up last August.

Mr F. R. B. Lockwood, F.C.A., has been appointed to the board of A. & S. Henry Ltd as deputy to the managing director.

Mr R. J. Middleton, F.C.A., has been appointed financial director of Nicholas Products Ltd.

Mr Albert E. Perry, F.C.A., secretary and chief accountant of Olympia Business Machines Co Ltd, has been appointed a director of the company.

Mr R. C. Saloway, F.C.A., has been appointed a director of Associated Coal and Wharf Companies Ltd.

Mr J. G. Shepherd, F.C.A., formerly assistant accountant, has been appointed accountant of Turner & Newall Ltd.

Mr G. S. Simpson, F.C.A., finance and accounts manager of Midland Division of Shell-Mex & B.P. Ltd, has been appointed manager of financial services at the company's head office in London.

Mr A. N. Tod, A.C.A., has become a partner of Ashton Tod & Noble, stockbrokers.

Mr James Webb, F.C.A., secretary of Craven Brothers (Manchester) Ltd, has been appointed a director of the company.

# CLOSURE OF SCOTTISH COLLIERIES Accountants in Deputation

Lord Polwarth, T.D., M.A., C.A., Chairman of the Scottish Council (Development and Industry), led a deputation from the Council on July 13th to discuss with the Secretary of State for Scotland the hardship which is likely to arise from the closure of collieries in Scotland.

Among the members of the Council who were present at the meeting held at the House of Commons were Provost W. Macfarlane Gray, o.B.E., J.P., F.A.C.C.A. of Stirling, a Past President of The Association of Certified and Corporate Accountants, and Mr J. N. Toothill, F.C.W.A., whose committee was responsible for the recently-published report on the Scottish economy.

#### RECORD OFFICE EQUIPMENT EXPORTS

Office equipment exports for May amounted to £3,725,196 (compared with £3,287,665 for May 1961) and provided the highest monthly total in the history of the industry. Main increases were in the sales of standard and electric typewriters and duplicating equipment.

Sales to E.E.C. countries again showed a substantial rise over the same month last year – £727,163 compared with £559,886. Sales to E.F.T.A. countries were £296,346 (£242,698), while those to the Commonwealth rose to £780,862 compared with £689,822 in

May last year.

#### O.E.C.D. ECONOMIC SURVEYS

Three further booklets in the 1962 series containing economic surveys of the Netherlands, Spain and Yugoslavia have been published by the Organization for Economic Co-operation and Development. Copies of the booklets are obtainable from H.M. Stationery Office, price 3s each.

# SHEFFIELD AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

#### New President

At the eightieth annual meeting of the Sheffield and District Society of Chartered Accountants held recently at the Kenwood Hotel, Sheffield, Mr C. E. Copley,

B.SC., F.C.A., was elected President of the Society for 1962-63.

Educated at Rotherham Grammar School and a graduate of Sheffield University, Mr Copley was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1926 and was elected to fellowship in 1938. Senior partner in the firm of Hart, Moss, Copley & Co, Chartered Accountants, of Rotherham and



Mr C. E. Copley

Barnsley, he is also a director of The British Wagon Co Ltd and a member of The Institute of Directors.

For sixteen years Mr Copley held the position of secretary of the Rotherham and District Chamber of Commerce and is a past president of the Chamber. He is also a past president of the Rotherham Rotary Club and for twenty-three years served as chairman of the Council of the Rotherham and District Y.M.C.A. Mr Copley is an enthusiastic golfer and a music lover.

Other officers of the Society have been elected as

follows:

Vice-President: Mr W. B. Douthwaite, F.C.A. Hon. Secretary: Mr J. M. Beard, F.C.A., Victoria Chambers, 22 Norfolk Row, Sheffield 1.

Treasurer: Mr R. L. Emmitt, F.C.A. Hon. Auditor: Mr A. G. Bedingfield, F.C.A.

Mr Copley proposed the vote of thanks to the retiring President, Mr A. G. Thomas, F.C.A., for the excellent way in which he had carried out his duties during the year. This was seconded by Mr J. W. Richardson, F.C.A.

Mr M. Sheppard, F.C.A., tendered his resignation as honorary secretary after holding this position for the past seven years, and thanks were expressed for his services to the Society during that period.

#### **Annual Report**

The report of the committee records an increase in membership of the Society during the year of eighteen, bringing the total at December 31st, 1961, to 503.

The general programme for 1961-62 consisted of a number of lecture meetings and a visit to the works and offices of Edgar Allen & Co Ltd. Luncheon meetings were held at Sheffield, Chesterfield, Doncaster and Rotherham during the year and were all well attended. Two meetings held in Sheffield for the purpose of allowing newly-qualified members to meet the President, committee, and other members of the

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Society achieved considerable success in creating further interest in the activities of the Society. A total of 408 members and guests attended the annual dinner held at the Cutlers' Hall on March 1st last, when the President of the Institute and the Lord Mayor of Sheffield were the principal guests. The first steps for the formation of the Sheffield Chartered Accountants' Golfing Society took place last September, and some twenty-six members of the Society have now joined.

Referring to students' classes, the report states that the committee has been greatly encouraged by the increased attendance at Saturday morning lectures for Intermediate and Final students. Following eighteen months' examination of tutorial arrangements for articled clerks, the committee have formed a Joint Tuition Authority on which students are represented.

#### THE BIRMINGHAM CHARTERED ACCOUNTANT STUDENTS' SOCIETY

The seventy-ninth annual report of The Birmingham Chartered Accountant Students' Society presented at the annual meeting on July 4th, records an active year during 1961-62 in which 130 lecture meetings were held between September 30th, 1961, and May 26th, 1962. A number of visits were made and small parties of about twenty students visited Joseph Lucas Ltd and the Birmingham Law Courts; in addition six parties were shown round the Birmingham Stock Exchange. An interesting joint debate was held with the Birmingham Law Students' Society, while, with the co-operation of the Birmingham Chamber of Commerce, a course on public speaking was run for the first time as an experiment.

Social events included the annual dinner attended by a record number of 435 members and guests and the annual ball which proved to be the most successful held by the Society in recent years. A midsummer dance was also arranged and the seventh annual treasure hunt proved popular with an entry of fifty-one cars. At sport, a considerable number of rugby football, hockey, tennis and cricket matches were played while at golf the Society twice played the senior society and won convincingly on both occasions.

The various area branches of the Society at Coventry, Hereford, Shrewsbury, Stoke-on-Trent, Wolverhampton, and Worcester all arranged full programmes during the year.

The following officers have been elected for 1962-63:

President: Mr Stanley Kitchen, F.C.A. Vice-President: Mr P. J. Garland, F.C.A.

Hon. Secretary: Mr B. R. I. Scorer, Chartered Accountants' Library, 36 Cannon Street, Birmingham 2.

Hon. Asst Secretary: Mr D. J. Bettinson.

Hon. Treasurer: Mr R. J. Easton. Hon. Librarian: Mr D. G. Parkes.

#### CHARTERED ACCOUNTANTS' **GOLFING SOCIETY**

The Chartered Accountants' Golfing Society played its annual match against The Chartered Accountant Students' Society of London at Walton Heath Golf Club on July 6th. The weather was ideal for golf and the course was in excellent condition. Both teams enjoyed the very keenly contested match, which resulted in a win for the Chartered Accountants' Golfing Society by six matches to four.

The teams consisted of five pairs each and ten four-some matches were played. The results (chartered

accountants' names first) were as follows:

#### MORNING

M. T. W. Easby and J. R. Briggs beat Tudor Davies and R. King, 2 and 1.

P. J. Hughes and D. J. Hedges lost to W. J. Moberly and I. Scade, 2 and 1.

J. M. Kaye and D. L. Shaw beat R. Stocks and R. Sinclair, 9 and 7.

R. G. M. Drummond and H. W. Pitt lost to A. Urquhart and N. Lambert, 3 and 1.
D. W. Gibson and C. I. Steen halved with A. Ross and

J. Lyttleton.

#### AFTERNOON

Easby and Hughes beat King and Lambert, 6 and 4. Kaye and Briggs halved with Tudor Davies and Moberly. Shaw and Drummond beat Scade and Urquhart, 6 and 5. Gibson and Hedges beat Stocks and Lyttleton, 7 and 6. Pitt and Steen lost to Ross and Sinclair, 3 and 2.

#### SANDWICH COURSE IN BUSINESS STUDIES

The Department of Economics and Management of Woolwich Polytechnic is to hold during the session 1962-63 an industry-based sandwich course in business studies of honours degree standard, designed especially for industrial firms operating a five-year commercial apprenticeship scheme.

Students will attend the Polytechnic for five annual periods of nineteen weeks, excluding vacations, but will also be supervised in their further studies during the industrial training period by correspondence or by attendance at tutorial classes where possible. The course will have the backing of a number of industrial companies who will be sponsoring students.

There will be two intakes of students during the session: course A. will commence on September 24th, 1962, and will finish on February 22nd, 1963; course B. will commence on February 4th, 1963, and

will finish on July 5th, 1963.

Tuition methods will include lectures, seminars, projects, tutorials, case studies, films and visits, the aim being to develop in students the capacity for original and analytical thought in their approach to business problems.

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# ACCOUNTANT

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# Computing National Growth

UST as the development of the electronic computer is widening the horizons of the scientist, the engineer and the accountant, so it has opened up a new field for the professional economist. The study of 'model-building', as it is known, has not merely become fashionable in economic circles as the latest piece of theory, it is becoming an essential adjunct to the system of economic planning which is inherent in the creation of the National Economic Development Council. It will be recalled that 'Neddy' has asked its economic secretariat to prepare plans on the assumption of an annual rate of growth equal to 4 per cent per annum. Some of the technical and theoretical problems involved in the formulation of these plans, which are based upon 'model-building', are described in a new publication from the Department of Applied Economics in the University of Cambridge – A Computable Model of Economic Growth. (Chapman & Hall, 10s net.)

The model prepared by this group of Cambridge economists under the direction of Professor J. R. N. STONE, C.B.E., M.A., P. D. Leake Professor of Finance and Accounting, is one of the most sophisticated ever to be produced. It contains over 250 accounts within the social accounting matrix, an exceptionally large number for this type of model, but practicable because of the new high-speed computer currently available. The basis of this model is a large number of econometric relationships expressed in the form of equations which the computer can resolve at high speed. While the mathematical problems are thus soluble, the greater problem of ensuring that the various constants and variables making up the equations are up to date is only partially met by the computer. For example, consumption patterns will change as real incomes increase and, while it is possible to make assumptions regarding the likely relationship between, say, personal incomes and outlays on consumer durables to ensure that a reliable prediction can be made, the computer enables a very large number of forecasts to be made on the basis of differing assumptions.

It has often been asserted that before long the machine will replace the man at most levels of human activity. This may be something of an exaggeration, but there is certainly more than a grain of truth in the assertion that the effectiveness of this type of economic exercise and its development for national planning may exceed in importance changes of Treasury Ministers. Just as radar has transformed the navigation of liners, so the social accounting matrix and the computer will ultimately be indispensable in the direction of the economy.

# Short-term Gains - III

#### DEALINGS IN CONTRACTUAL RIGHTS

Nour last issue we dealt with the general rule laid down by clause 12 (1) of the Finance Bill that acquisitions and disposals of interests in assets (or rights over assets) are to be treated for Case VII purposes as acquisitions or disposals of the assets themselves. It is possible to 'acquire' a right which thereupon ceases to exist, e.g. by merger into the acquirer's pre-existing rights. In the same way, a person who grants a right thereby disposes of the right, notwithstanding that it had no previous existence.

The words 'acquire' and 'dispose' in the Case VII provisions are to be construed in this sense, unless the context otherwise requires. Clause 12 (2) provides that a contract to acquire or dispose is to be treated in itself as the acquisition or disposal; the subsequent transfer being disregarded for this purpose.

These artificial concepts naturally give rise to complexities and anomalies, and paragraphs 1 and 2 of the Ninth Schedule attempt to deal with these. Paragraph 1 was examined here last week. It deals with contracts which either do not come to fruition, or are modified. This week we examine paragraph 2 which is concerned, broadly speaking, with dealings in contractual rights to acquire or dispose of assets.

Paragraph 2 (1) postulates:

- (i) a subsisting contract;
- (ii) a right under that contract 'to acquire or dispose of an asset';
- (iii) a person 'acquiring' that right.

It treats the person as acquiring or disposing of the asset itself 'to the like extent as if he had entered into a new contract conferring' the right mentioned in (ii). Thus an acquisition can be treated as a disposal.

The cost of the 'acquisition' as mentioned in (iii) is to be treated as an *expense* of acquiring or disposing of the asset. If the person also undertakes the obligations under the subsisting contract at (i), this is not to be treated as part of the cost of the acquisition at (iii). It seems clear from the context that when the Ninth Schedule speaks of a 'right to acquire or dispose of an asset' it is not to

be taken literally, but is referring to a right to acquire or a right to dispose.

Paragraph 2 (1) (like paragraph 2 (3) which is dealt with below) is expressed to be subject to paragraph 18. Paragraph 18 (1) deals with the following circumstances:

- (iv) Pr acquires an asset; and
- (v) Pr has to be treated as if an acquisition by P2 had been an acquisition by P1.

It requires two artificial assumptions to be made as follows:

- (vi) Pr is to be treated as having acquired the asset at the time P2 acquired it;
- (vii) Pr is to be treated as having given such consideration to P2 as would produce the result that P2 made neither a profit nor a loss (computed on Case VII principles).

Where P2 had two or more acquisitions, being of different interests in the asset, then (vi) and (vii) apply to each one. There are two provisos (a) and (b) to paragraph 18 (1), as follows:

- (viii) P2's acquisition is to be treated as P1's acquisition if, and only if, the interest taken by P1 will be treated for Case VII purposes as 'deriving from' P2's acquisition; and
  - (ix) in so far as the interest mentioned in (viii) would be treated as deriving from an acquisition by P2 as a legatee, then P1 is to be treated as acquiring the asset as a legatee.

The notional dating back (see (vi) above) of P1's acquisition could take it to a date before April 10th, 1962, so as the exclude liability to Case VII tax altogether, in view of the proviso to clause 10 (1). Similarly, it could have the effect of artificially lengthening the gap between acquisition and disposal to more than the statutory six months or three years as laid down by clause 10 (2). As regards (viii) and (ix), the question whether a particular interest 'derives' from a particular acquisition is dealt with by subclause (8) of clause 13, which clause deals with the arithmetical computation of gains or losses for Case VII purposes. 'Legatee' is defined by clause 16 (1) as 'including'

'any person taking under a testamentary disposition

or on an intestacy or partial intestacy, whether he takes beneficially or as trustee'.

For this purpose, a donatio mortis causa is a testamentary disposition.

A person acquiring assets as legatee (as so defined) is not chargeable under Case VII in respect of any disposal by reference to that acquisition (clause 12 (8)) but there is an exception in the case of shares in a land-owning company (clause 14).

Paragraph 2 (2) of the Ninth Schedule makes two provisions about rights to acquire or dispose of assets (being rights under a subsisting contract):

- (x) a person disposing of the right is not to be treated as thereby disposing of the asset; and
- (xi) he is not to be treated as having acquired or disposed of the right by the subsisting contract.

Paragraph 2 (2) is expressed to be 'notwith-standing anything in subsection (1) of section 12 of this Act' but in any case the whole of clauses 10 to 16 inclusive are expressed, by clause 16 (8), to be subject to the rules contained in the Ninth Schedule. The second of the provisions, viz. (xi), does not apply to a case which is within paragraph 2 (3) of the Ninth Schedule.

Paragraph 2 (3) has three dramatis personae: P1, P2 and P3. One assumes the following circumstances:

- (xii) there is a subsisting contract for the disposal of an asset to P<sub>3</sub>;
- (xiii) P1 disposes of the asset to P2 but subject to and with the benefit of the subsisting contract at (xii);
- (xiv) the contract at (xii) is either unconditional or, if it is conditional, the condition has been satisfied by the time of the disposal at (xiii).

Given these circumstances, paragraph 2 (3) provides as follows:

- (a) (i) Pr is not treated as making any new disposal of the asset except to the extent to which it was not disposed of by the subsisting contract;
  - (ii) one must disregard so much of the consideration for the disposal at (xiii) as is attributable to the right to receive the consideration under the subsisting contract at (xii);
- (b) (i) Pr is treated as completing the disposal by the contract at (xiii);
  - (ii) paragraph I does not operate on the disposal at (xiii), i.e. one disregards the subsequent discharge of that contract or any default or abatement.

Paragraph 2 (3) is expressed to be subject to

paragraph 18 which we have dealt with above.

Paragraph 2 (4) consists of a number of words strung together so loosely that some courage is needed to assert what it really means. It is in two parts. The first part seems to envisage the following circumstances:

- (xv) P entered into a contract;
- (xvi) Under that contract P had a right to acquire or dispose of an asset (i.e. either a right to acquire or a right to dispose see the commentary to paragraph 2 (1));
- (xvii) P disposes of the right at (xvi).

Given those circumstances, then in relation to the disposal at (xvii),

- (xviii) the right is treated as having been acquired by P when he entered into the contract at (xv); and
  - (xix) as acquired by him for any consideration given by P for having that right (but excluding from such consideration his agreement to acquire or dispose of the asset).

The second part of paragraph 2 (4) is simpler. It deals with the case where P1 is under a contract to acquire or dispose of an asset and he gives consideration to P2 in order to be discharged from that contract. P2 is treated as disposing, for that consideration, of P2's right (under the contract) to dispose of or acquire the asset.

The object of paragraph 2 (5) is to withhold the operation of paragraphs 1 and 2 in certain exceptional circumstances, namely, where a person has entered into a conditional contract for the acquisition or disposal of an asset but has died without the condition being satisfied. If the contract was to acquire, then nothing in paragraph 2 is to apply so as to treat any other person as acquiring the asset by reason of the condition being eventually satisfied. However, paragraph 2 (1) is to apply in relation to a person acquiring the deceased person's right from his personal representatives or legatees. If the contract was to dispose, nothing in either paragraph applies so as to treat him as disposing of the asset when the condition is eventually satisfied.

'Personal representatives' has the same meaning as in section 423 (4) of the Income Tax Act, 1952, which incorporates the definition in section 55 of the Administration of Estates Act, 1925, but extends it to include the foreign equivalents of personal representatives.

(To be continued.)

# Reform of Schedule A

by H. S. A. MACNAIR, F.C.A.

In his Budget speech the Chancellor asserted that the proper time to decide on the future of Schedule A would be in connection with the 1963 Finance Bill, when the new valuations for rating purposes in England and Wales would take effect. After referring to the unsatisfactory character of the tax in relation to owner-occupiers, he then gave this assurance:

'We will not seek to use the new rating valuations for Schedule A purposes so far as these owner-occupiers of residential property are concerned... we will make proposals for bringing this tax on them to an end.'

It will be seen, therefore, that the end of Schedule A as a whole is a much less definite policy objective than the proposed introduction of a single corporation tax of which the Chancellor said:

'We have got beyond the stage of general talk about the desirability or otherwise of a single tax and can now look at a possible scheme.'

However, the decision to sacrifice the yield of tax derived from beneficial occupation – estimated at about £50 million – does mean that the main obstacle to change has been overcome. Although this figure was quoted in the context of prospective loss of tax from owner-occupied residential property only, it appears, in fact, from the memorandum submitted by the Board of Inland Revenue to the 1960–61 Estimates Committee, Subcommittee C., that £50 million represents the loss that would result if Schedule A were abolished and let properties assessed under Schedule D.

#### **Proposed Modifications**

Attention can be concentrated, therefore, on the modifications called for in existing administrative arrangements in order to satisfy the requirements of efficiency and equity. The proposals summarized below were included in a memorandum by the Association of British Chambers of Commerce:

(a) No separate collection of tax under Schedule A to be made where premises are owned and occupied for business purposes.

The objection that this step would entail an artificial increase in earned income relief in the case of farm-houses and other premises partly in

private occupation could be overcome initially by limiting still further the net annual value deductible from trade profits and amending from two-thirds to one-half the maximum proportion laid down by section 137 of the Income Tax Act, 1952. Ultimately the elimination of the tax charge on residential owner-occupiers would be extended to the case of business premises.

The remaining proposals were:

- (b) Where a taxpayer owns properties in a number of districts it should be arranged that the statement of tax due and its collection is channelled through a single office;
- (c) Where it is clear that the maintenance expenditure already on record for earlier years is sufficient to eliminate any Schedule A liability, the collection and subsequent refund of tax should be dispensed with;
- (d) On a change of ownership the inspector should give particulars of the previous owner's expenditure on maintenance without requiring a written authority from him;
- (e) A simplified 'new owner' return form should be devised for use where properties are acquired by a company.

#### Schedule A Administration

At this point it may be useful to consider the place of Schedule A in the organization of a typical Revenue district. The latter is divided between P.A.Y.E. (where the bulk of the staff is concentrated) and general matters; each of these two sections coming under the supervision of an inspector assisting the district inspector. The staff in the general section are divided into three groups of five members each, headed by a tax officer, higher grade. Claims and Schedule D matters are the responsibility of two such groups while the activities of the third are wholly devoted to Schedule A and Schedule B. When it is considered that the collection offices are responsible for issuing some 52 million Schedule A demands (as compared with a turnover of 7 million Schedule D demands) it will be apparent that the collection of tax under Schedule A requires an effort out of all proportion to its yield.

As regards the actual scope of the duties involved, reference may be made to the memorandum submitted by the Board to the Estimates

Committee in which the principal tasks are summarized as follows:

(1) Preparation of Schedule A assessments and issue of a duplicate to the collector.

(2) Examination of particulars of new and altered ratings supplied by the Valuation Office and the raising of new, or the adjustment of existing, assessments, as necessary.

(3) Dealing with various claims for relief or allowances (e.g. maintenance and repair, voids and unpaid rents, building society interest and other interest paid in full).

(4) Division of assessments on splitting and sale of estates.

(5) Issue to the collector of any necessary advice notes and preparation of authorizations for discharge of tax following objections and appeals.

(6) Dealing with correspondence from other groups

or other districts.

(7) Schedule B assessing (now a comparatively small feature). (In this connection it may be noted that the yield of Schedule B is of the order to £100,000 only. The abolition of this schedule, however, presupposes an alternative tax treatment of woodlands.)

#### **Cost of Collection**

In view of the fact that retention of Schedule A was recommended by the Royal Commission in 1955, it is possible that, political considerations apart, the disfavour with which it is now regarded owes something to its relatively high cost of collection. This cost was estimated by the Board in the sum of £4.4 million, based on a collection of about £103 million (exclusive of about £40 million dealt with under P.A.Y.E. and in other ways). However, the present method of operating Schedule A reflects the problems of taxing notional incomes and the changes now proposed open up the prospect of reducing the cost of collecting the tax on real property incomes to the rate applicable on average to income tax generally, about 1.5 per cent.

A reform frequently mooted is the amalgamation of the collection service with the Inspectorate with a view to elimination of duplicated effort. However, the Bamford Committee which reported in 1950 found that the parallel records were not duplicates but differed in nature and purpose and their unification would be impracticable. As regards staff it may be explained that a collection office is divided between the cashier's section and the control section. The latter deals with the necessary paper work, including liaison with the inspector's office and recovery of arrears. The personnel are trained to be interchangeable

between the sections so that seasonal peaks of work are handled without extra staff. This advantage would be lost if the control section were to be integrated with the inspector's office since, for security reasons, the cashier's section would have to be kept entirely distinct from the staff responsible for preparing assessments. The fact that the quest for economy in administration has resulted in a ratio of collection offices to inspector's offices of about 250 to 700 represents a further obstacle to any worth-while scheme of integration.

It appears that the local character of the collection service has hitherto been regarded as a basic right of the taxpayer and the decline in the number of collection offices is considered to have reached the limit compatible with such a right. The substitution of a centralized collection, however, would open up possiblities not only of economies through mechanization but, paradoxically enough, of better service to the taxpayer. This inference may be drawn from the experience in the field of surtax where the cashier's function is exercised by the Accountant-General at Worthing, while the duty of seeing that surtax is paid is laid upon the official who computes the liability. The Board stressed the advantages of this system in these terms:

'Instead of having to notify a collector of any variations in the assessment, the examiner who is dealing with the liability and making adjustments in the liability is aware of the collection position and can deal with it in the same letter. It is a very much quicker method of doing it and it saves the correspondence that goes on between the inspector and the collector.'

It may be mentioned that there are some 18 million Schedule A assessments.

#### Reform or Abolition?

It remains to consider the choice between further reform of Schedule A and its abolition. A proposal by the Revenue that assessments should be open to revision year by year has the obvious merit of eliminating related excess rent assessments, except in the somewhat rare case where an intermediate lessor pays to his superior landlord a higher rent than he himself is able to command. This proposal has the further merit that retention of Schedule A implies retention of the system of deduction of tax at source in relation to property incomes, a feature of the administration of the Revenue which is regarded as fundamental to the discouragement of tax avoidance.

The alternative course whereby all rental income would be dealt with under the rules of

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Case VI of Schedule D raises certain difficulties. Provision would be needed for those instances where the money rent does not represent the true return to the landlord, e.g. because there is additional consideration for the letting such as a covenant by the tenant to carry out improvements. In such a case it would be appropriate to quantify the value of the benefit accruing to the landlord by adhering to the rateable value as the measure of the assessment. This measure might also be appropriate in the case of small investors, for reasons of stability and simplicity. It is suggested that there could be a right of election for this basis, subject to certain safeguards. Again, the receipt of a premium would require treatment as rent, subject to a possible option to spread the charge forward over six years as is done in the case of patent rights sold for a lump sum (section 318, Income Tax Act, 1952). As a corollary the trader or investor who pays a premium should be given the right of amortization over the period of duration of his interest, by analogy with section 316 in relation to expenditure on the acquisition of patent rights.

Another practical consideration in applying the rules of Case VI concerns the losses likely to be recorded at intervals by reason of the cyclical incidence of repairs. At present the treatment of these outgoings is inconsistent, in particular in relation to the artificial computation of excess rents on the one hand, and on the other the requirement that a loss qualifying for relief under section 346 must be computed on the lines of a commercial loss (Barron v. Littman (31 A.T.C. 387; 33 T.C. 373)).

The removal of the limit on relief imposed by reference to the net annual value would alleviate the problem as would the treatment of the management of all property in one ownership as a single activity, comparable to the 'one estate' contemplated by section 101. Evidently equity requires the grant of a right of carry-forward of unrelieved property expenses for an indefinite period, although in order to avoid possible abuse where dilapidated structures are concerned it seems probable that the right to relief in respect of such losses would be restricted to future income from property, by analogy with Case VII. Finally, it may be observed that there would be no place in the new scheme for the anomalous carry-forward of expenditure incurred by a previous owner for the benefit of his successor.

# Canada's Disclosure Act

by KENNETH F. BYRD, M.A., B.Sc.(Econ.)(Lond.), F.C.A. Professor of Accounting, McGill University, Montreal

Thas long been a fear of the Canadian Government that Canada was becoming far too dependent, financially, on the colossus across the southern border for development of her natural resources. Moving the second reading of Bill C-38 which became law on April 9th, 1962, as the Corporations and Labour Unions Returns Act, the Minister of Justice quoted the words of the Prime Minister when, as Leader of the Opposition in 1957, he spoke of the need for:

'... a national policy; not a policy of nationalism but one whereby Canada in the days ahead will remain an independent Canada and will not inexorably drift into economic continentalism; one whereby Canada will maintain her economic independence and her sovereignty; a policy that will provide national development for a greater Canada in which growth and prosperity will not be purchased at the expense of our economic independence and our effective national sovereignty'.

With the enactment of Bill C-38, popularly

called the Disclosure Bill, the Conservative Government claimed to have made the first step towards dealing with this problem. It is an attempt at self-assertion and the maintenance of independence by a nation whose growth and economic prosperity still inevitably depend on financial assistance from across her borders. While investment from abroad is still needed in vast quantities, it must not be at the expense of effective control by Canadians. The new Act is meant to ensure that Canada has, at all times, the information which will enable her to direct her policy towards the maintenance of this effective control.

#### Company Information Required

The Corporations and Labour Unions Returns Act is divided into two sections, Parts I and II. Part I concerns itself with incorporated companies (corporations), both public and private, authorized under Canadian law, whether Federal

or provincial, to carry on business in Canada. Beginning with the financial period ending in 1962, each company is required to make an annual report to the Federal Government, divided into two sections. Section A comprises details which will be fully open to public inspection. These include classification of share capital as to shares held by persons with addresses of record inside and outside Canada, respectively; the number of persons with addresses outside Canada holding each more than 5 per cent of the issued shares of a class, and the number of such shares; specified particulars as to each body corporate holding 10 per cent or more of the issued shares of any class, and the number so held; further particulars where the company itself holds more than 50 per cent of the issued shares of a body corporate authorized by Canadian law to carry on business in Canada; the name and address and nationality of each director, wherever resident, and of each officer resident in Canada.

Section B includes full financial statements for the reporting period. Also, except where the company was at no time resident in Canada during the reporting period, details are required as to the total amounts paid or credited during the period to non-residents, in respect of dividends interest, rents on real property in Canada, rent on equipment used by the company in carrying on business in Canada, and royalties classified as to copyrights, patents, industrial designs and trade-marks. Other details include remuneration of officers and directors, annuities, pensions, etc., for officers and directors and persons holding more than 5 per cent of issued shares of any class, and fees for professional services, duly classified.

Each statement in Section B is to be accompanied by a signed auditor's report. The greatest pains are taken to ensure that all information supplied in Section B shall be kept secret and not available to the public. To this end, while both A and B sections of the annual report are to be filed direct with the Dominion Bureau of Statistics, a copy of A is to be passed on to the Department of the Secretary of State and kept on record for public scrutiny, but B will remain with the Dominion Bureau which has a long experience in custodianship of such privileged information.

#### **Trade Union Provisions**

Part II of the Act is concerned wholly with labour unions on a parallel basis to the incorporated companies of Part I; this juxtaposition within a single Act being a most unusual feature. The information required is similar to that specified for incorporated companies, and there is a division into Parts A and B with a like significance. The labour unions affected are those carrying on activities in Canada, with a local union or branch in Canada and with not less than one hundred members resident in Canada on the last day of the reporting period. Where the union headquarters are outside Canada, a statement is required showing separately the total amounts paid or credited to the union, in the reporting period, by or for members resident in Canada, in respect of initiation fees, members' dues, health and welfare, death benefit and strike assessments, fines and work permits. Each financial statement in Section B is again to be accompanied by a signed auditor's report.

Part III of the Act provides for the availability of the information supplied, both by companies and unions. In the case of the unions the A information is passed on to the Department of Labour, just as it goes to the Department of the Secretary of State where companies are concerned. In these two departments the Section A information is to be available for inspection by any person for a fee not exceeding \$1.00. On the other hand, the privileged information in Section B, which remains in the Dominion Bureau of Statistics, is not to be communicable even in connection with legal proceedings, except in the case of criminal proceedings and for purposes of administration or enforcement of the Act itself. It may not, for example, be communicated to the Department of Income Tax, a fact which was stressed by the Minister of Justice in response to questions in the House. The penalty for any official or authorized person who contravenes the provisions as to this privileged information is a fine not exceeding \$1,000, or imprisonment up to three months, or both.

#### **Exempt Concerns**

A separate schedule to the Act specifies the following as exempt from disclosure under the Act: banks, insurance companies, trust and small loan companies, fraternal benefit societies, credit unions, Crown corporations, municipalities, agencies of foreign Governments, charitable bodies, broadcasting companies, airlines, and railways, telegraph, telephone or express companies. The argument here, as indicated in Parliament by the Minister of Justice, is that for the most part these companies are, in various other ways, already required to give the informa-

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tion obtainable under the new Act and the aim is to avoid unnecessary duplication.

It remains to be seen whether this Act - which had only a handful of dissentients when it came to the vote - will, in effect, give the Canadian Government such additional information not before available to it, as will enable it to take action to control Canada's industrial and economic expansion. One of the most sensible of the contributions to the debate which preceded the second reading of the Bill was that of Mr E. I. Broome. who has had a Private Member's Bill on the order paper for three or four years dealing with financial disclosure by Canadian subsidiaries of foreign companies. He approved the Government's determination to go further than his own Bill in including in the new measure all companies in Canada, both public and private and whether under a Federal or provincial charter, together with labour unions.

#### Criticisms of the Act

Mr Broome's main criticism was that the information to be supplied in Section A did not, in fact, amount to very much. He made the point that foreign capital did not come to Canada to do her a favour but because of what Canada offered as an incentive. Consequently he objected to the fact that almost all the information of value was placed in Section B and so kept secret from the public. He urged that the Act was, in effect, protecting foreign-owned subsidiaries in competition with Canadian companies – subsidiaries such as Chrysler Corporation, General Motors, Colgate-Palmolive and International Harvester.

There can be no doubt that this is a strong point. The Canadian investor's present position is that these Canadian private company subsidiaries of huge United States parent companies are able to hide from the public, simply because they are legally private companies, financial information which competitive Canadian public companies are forced to supply. The requirements of the Securities and Exchange Commission in the United States are, on the whole, far more exacting in regard to disclosure by published accounts than those of the Companies Act (Canada) which have remained unchanged since their introduction in 1934. Why should not the subsidiary in Canada be expected to be just as open as its parent in the United States has necessarily to be? One company, at least - International Harvester - was reported in Parliament by Mr Broome as having stated that it felt that its duty to its customers and employees in

Canada necessitated publication of its balance sheet and profit and loss statement, with all the details that would have been required if it were a public company. It published this information with the intention of taking the people of Canada into its confidence.

#### Government's Aim

This seems eminently reasonable, for it is absurd to find the Financial Post having to announce that it has resorted to information published by the parent company in the United States for financial results of a Canadian subsidiary which was silent in Canada. Since a main aim of the Government is to encourage the Canadian investor to increase his share in the financing of Canadian industrial development, it is illogical to give the United States parent companies the incentive of the secrecy of Section B for restricting Canadian participation in the Canadian subsidiaries. Here there is no such justification for the difference between private and public company which is recognized where closely held family interests are involved.

The real question at issue, of course, is whether the Government could make a requirement of foreign-controlled Canadian subsidiaries which is not imposed on other Canadian private companies. The new Act will result in the supply by all Canadian private companies, to the Secretary of State, of financial information not formerly required of them. The Minister of Justice stated in Parliament that the interests of the Canadian private company not under foreign control necessitated the placing of such financial information in Section B, where it would have the privilege of secrecy. Otherwise its United States competitors would be given a means of information which might be highly damaging to the Canadian private company.

The Government's avowed aim is to obtainfull information as to the extent of present control of the Canadian economy by outside interests, both in the field of the incorporated company and in that of the labour union. The new Act will certainly supply it with a fund of information not formerly available to it. Where vast concerns like General Motors operate in Canada through private companies, sources of information hitherto completely secret will be opened up to the Government's statisticians. It remains to be seen to what extent they are able to synthesize the information and report it to Parliament, each year, in a manner which will enable it to achieve its aim.

# Service to Management - I

by R. D. S. SHRIMPTON, F.C.A.

#### Introduction

EARLY forty years ago, when I was an articled clerk, I got to know a young qualified accountant who was himself the son of a doctor. I asked him one day why he had chosen to become an accountant rather than (say) a doctor like his father. He replied that in some respects the two professions were alike and that he had been attracted by the idea of becoming a sort of financial doctor whose function it was to check the health of his patients through the medium of the annual audit, to prescribe for their financial ailments and if, unhappily, they became mortally ill, to guide them through the legal and financial intricacies of bankruptcy or liquidation.

- 2. It seems to me that this answer typifies the conception which most people, including most accountants, had of the accountancy profession at that time and even in the case of the industrial accountant the conception was not radically different. The function of the chief accountant of a manufacturing or trading company was to keep the company's books of account, to collect the book debts, to pay the creditors, to safeguard the assets through suitable recording and checking procedures, and periodically to produce to the board balance sheet snd statements of past trading results. The emphasis, in fact, was always on the past. The future was the concern of management not the accountant.
- 3. That was many years ago and since then there has been quite a radical change of thinking on the part of accountants and others with regard to the function of the accountant, and particularly the industrial accountant. More and more accountants—and more and more boards of directors—are coming to realize that the accountant can provide invaluable assistance to management in planning the future and to managers at all levels in controlling the activities for which they are responsible. This seems to me to be a development of great significance for our profession and a healthy sign that we are prepared to adapt and expand our services to meet the needs of management in the modern world.
- 4. I think I should say at this point that nothing in this paper is intended in any way to belittle the importance of the services which accountants have always provided and will continue to provide in controlling the accounting function and in the fields

A paper given last Saturday at the Cambridge Summer Course of The Institute of Chartered Accountants in England and Wales. The author is chief accountant in the Paints Division of Imperial Chemical Industries.

of auditing, bankruptcy, liquidation, taxation and financial advisory services of all kinds. What has happened – so it seems to me – is that a new dimension has been added to the function of the accountant. He is no longer just a scorer whose job it is to prepare periodic reports on the past. Now he is expected to take a full part in the game as a member of the management team.

5. This new dimension which has been added to the accountant's function lies in the field of what is usually known as 'financial control' and we must now consider what we mean by financial control and the manner in which it should be exercised in a well-run manufacturing company. (The same principles will apply in the case of purely trading companies or firms, but in their case the application will, of course, be very much simpler.)

#### The Scope and Purpose of Financial Control

6. What then do we mean by financial control and what is its purpose? Before I answer that question I think we should consider what is the fundamental objective of manufacturing industry. As I see it, and in the purely material sense, the fundamental objective of every manufacturer must be to sell his products with maximum profit in the long term. I say 'in the long term' because policies which produce additional profits in the short term may have the effect of reducing profits in the long term, and it is the long-term picture that is important. Long-term profitability is ultimately dependent upon having a growing number of customers each of whom believes that he is getting a good product at a fair price. It follows that to ensure long-term profitability a manufacturer should be prepared to buy the best materials for the job, to pay good salaries and wages in order to secure good men for his manufacturing, selling and administrative operations and to be

content with reasonable profit margins in order to retain and increase his business and discourage competition.

- 7. There are some people, of course, who think that there is something inherently wrong in the idea of profit and the profit motive. In fact, as we all know, the profitability of a manufacturing enterprise is the best measure we have of the effectiveness with which the manufacturer has made use of his human and physical resources in providing to his customers the products which he manufactures.
- 8. In order to achieve maximum long-term profitability the manufacturer must first create a market for his products and he must then supply products of the right quality, at the right price and in quantities adequate to meet market requirements with the minimum overall expenditure of the three basic factors in production, i.e. capital, materials and labour. The purpose of financial control is to help the managers of the organization at all levels to do just that.
- 9. In principle, financial control comprises three operations, i.e.
  - (a) conversion of the plans of the organization both long-term and short-term—into terms of money.
  - (b) Comparison in terms of money of actual and planned performance.
  - (c) Ascertainment of the reasons for divergencies between actual and planned performance as a guide to appropriate corrective action.

The ways in which these operations are carried out in practice will, of course, vary widely in accordance with the type of business, the organization and management structure of the company and the personal predilections of the directors and the chief accountant. The following description of a typical financial control system should not, therefore, be taken as a blue-print to which all systems must conform but merely as an illustration of the principles involved.

- ro. Let us now consider how a typical financial control system would operate. It is a statement of the obvious that every manufacturer who wishes to run his business successfully must first decide what he is trying to do and then formulate a fundamental policy to guide him in giving effect to his decision. This policy may be changed from time to time in the light of changed circumstances but it is most important that at all times there should be a definite policy for running the business which is fully understood by the directors and managers of the business. In formulating such a policy the manufacturer must answer one or more of the following questions:
  - (a) Should I restrict my range of products to those in regard to which I am technically competent or should I enlarge my product range to cover other related requirements of the market(s)

- which I serve? In the latter case, I may we need to buy 'know-how' or to increase substantially my expenditure on research an development.
- (b) Should I enter new markets with my existin and/or a new product range?
- (c) In regard to the products which I supply, an the markets which I serve, should I try t cover the whole field of usage or should concentrate on a particular quality bracket?
- (d) How big do I want to be, or in other words how much of the market(s) which I serve do wish to secure? In answering this question th manufacturer should realize that in industry is rarely possible to stand still, and that usuall the only alternative to expansion is progressiv contraction.
- 11. Having made these fundamental decisions, the manufacturer must then take steps to ensure that he always has an adequate, but no more than adequate supply of the human and physical resources necessar to maintain and expand his production so that he calcalways meet the demands of his customers.
- 12. The first essential, of course, is to ensure the the human resources are adequate because in the en it is the quality of the manufacturer's employee rather than the quality of his plant and the excellenc of his materials which will ensure his success. It is most important, therefore, that the manufacture picks his employees well and in good time for ordere promotion to vacancies as they arise and that he make good provision for their training. Physical resource can be roughly classified as:
  - (a) fixed assets;
  - (b) raw materials, fuel and stores;
  - (c) services, i.e. steam, electricity, etc.;
  - (d) cash.
- 13. As already stated, the object of acquiring thes resources is to ensure that the manufacturer can mee the demands of his customers. In a competitiv market the loss of an order due to the manufacturer' inability to supply what is wanted when it is wante may mean the permanent loss of a customer. It i most important, therefore, that the physical resource should be adequate. They should not, however, b significantly more than adequate. Surplus productiv capacity and excessive stocks involve tying up capita in idle plant and materials on which it will b impossible (except in conditions of monopoly) t earn an adequate return.

#### Long-term Plans

14. In order to steer a middle course between th twin evils of surplus and shortage, the manufacture must try to gauge the probable level of demand fo his products some years ahead and this must be

continuous operation. For this purpose a long-term sales forecast, showing quantities and analysed by markets and by main products, should be prepared each year for (say) five years ahead. These forecasts will involve for each market for which the company caters, an assessment of two factors, i.e.:

- (a) the probable future rate of growth of the market as a whole, and
- (b) the probable future rate of growth or decline of the company's penetration of the market.

Having made these two basic assessments in regard to each market and each product, or group of products supplied to that market, the completion of the forecast is merely a matter of arithmetic.

15. The responsibility for preparing these long-term sales forecasts will depend upon the size of the company and the complexity of the markets which it serves. In a small company supplying a single industry the job might be done by the sales manager or one of his assistants. In a large company supplying a

number of different industries the task might be entrusted to a market research section, staffed with economists and statisticians. Whoever prepares it the forecast will finally be submitted to the sales manager who, in addition to approving the forecast, will estimate for each market, each product and each of the years covered by the forecast the net prices which he expects to realize.

16. The importance of the long-term sales forecast cannot be over-emphasized since it will form the basis of the manufacturer's plans for expansion of his productive capacity, for planned recruitment of additional staff and labour and for provision of accommodation for the additional employees. Accordingly it is worth while spending considerable time and effort to ensure that the long-term sales forecasts are as accurate as it is humanly possible to make them. Because they are so important they will need to be approved by the board and in particular the board must approve the basic assumptions made by the forecasters in regard to such factors as the future

## Some Personalities at the Institute's Cambridge Summer Course



Front Row (left to right): Mr J. H. Mann, M.B.E., M.A., F.C.A., Vice-Chairman, Summer Course Committee; Mr J. A. Jackson, F.C.A., Chairman, Summer Course Committee; Mr Percy F. Carpenter, F.C.A., President of the Institute; Mr Robert P. Winter, C.B.E., M.C., T.D., D.L., F.C.A., Vice-President of the Institute; Mr Alan S. MacIver, C.B.E., M.C., B.A., Secretary of the Institute.

Middle Row (left to right): Mr E. J. Newman, M.A., F.C.A., Leader of Group F; Mr D. S. Smith, M.A., F.C.A., Leader of Group A; Mr E. C. Sayers, F.C.A., Leader of Group G; Mr K. A. Buxton, F.C.A., Leader of Group B; Mr David Williamson, F.C.A., Speaker; Mr G. B. Judd, M.A., F.C.A., Leader of Group E; Mr G. E. Morrish, F.C.A., Leader of Group D; Mr W. Taplin, M.A., B.Com., Editor of 'Accountancy'; Mr C. H. S. Loveday, F.C.A., Under-Secretary of the Institute, Back Row (left to right): Mr D. P. Hubbard, B.A., Assistant Secretary of the Institute; Mr P. Carrel, C.M.G., O.B.E., B.A., Under-Secretary of the Institute; Mr A. W. Howitt, M.A., F.C.A., Leader of Group C; Mr R. D. S. Shrimpton, F.C.A., Speaker; Mr D. O. Bailey, F.C.A., Speaker; Mr F. M. Moys, B.A., Administrative Assistant of the Institute.

trend of national production and the effects of possible Government action, both in the domestic and the international sphere.

- 17. After board approval, the long-term sales forecast will be remitted to the production manager who must ensure that there will be sufficient plant capacity to cater for the highest level of sales during the period, i.e. usually the sales during the final year covered by the forecast. If it is found that the existing plant capacity is insufficient, the production manager will estimate the additional requirements and discuss and agree with the board the best method by which, and the place at which, these requirements should be provided. The chief engineer will then prepare detailed designs of the proposed new plant and estimates of its cost for the approval of the board.
- 18. In addition to plant capacity the production manager must also concern himself with supplies of essential raw materials and services. To ensure that these will be adequate he will calculate for each of the years covered by the long-term sales forecast the total requirements of each material and service. The figures so calculated will be passed to the supply manager who will be responsible (a) for ensuring that the materials and services will be available when they are wanted; and (b) for estimating their probable cost.
- rg. At the same time the managers of the individual works and departments of the company will be asked to prepare for the approval of the board and on the basis of the long-term sales forecast, estimates of their staff and labour requirements for each of the years covered by the forecast.
- 20. Up to this stage the various forecasts and estimates will have been expressed largely in physical and quantitative terms and it is now the job of the chief accountant to collect the figures, value them where this has not already been done, and weld them into a draft long-term plan expressed in terms of money. This will include for each of the years covered by the long-term sales forecast:
  - (a) a profit forecast;
  - (b) a forecast of capital employed;
  - (c) a cash forecast.
- 21. The profit forecasts will be based on the sales quantities for individual market and product groups given by the long-term sales forecast, the estimates of net sales realizations given by the sales manager, the estimates of raw material and services costs given by the supply manager and the estimates of staff and labour requirements furnished by the individual works and departmental managers.
- 22. The forecasts of capital employed will be divided into two sections for fixed and working capital respectively. The forecasts of fixed capital will be based on the value of existing assets, plus the estimated costs of additions to existing assets coming into production or use during the five-year period,

less the value of assets which it is planned to demolish, scrap or sell during the five-year period. For the purpose of determining capital employed fixed assets should, in my view, be valued on a 'gross' basis, i.e. before deducting depreciation, and existing assets should preferably be valued at their current estimated replacement cost. This will ensure that assets acquired in the past are valued on the same basis as assets to be acquired in the future and that the figures bear some relation to the capital investment which these assets represent. The forecasts of working capital will be based on the estimated future volume and cost of sales and on expected future stock-holding periods and terms of credit.

- 23. The cash forecasts will show for each year (a) the net cash receipts which will arise from the forecasted profits and (b) the cash which will be required for:
  - (i) income and profits taxes;
  - (ii) capital expenditure;
  - (iii) increased working capital resulting from the increased turnover;
  - (iv) dividends to shareholders.
- 24. The completed forecasts will be considered by the board. In looking at the profit forecasts and the forecasts of capital employed the board will pay particular attention to the trend of the ratio of net profit to capital employed, or, in other words, the percentage return on capital. If the trend is downward the board must decide how this unfavourable tendency is to be corrected. In coming to a decision on this point the board will first examine critically the forecasted future levels of sales volume, since probably the most satisfactory way of increasing the percentage return on capital is to increase sales volume, particularly if existing and committed future productive capacity is, or will be, under-employed. If the board decides that an increase in sales volume ought to be possible, ways and means of achieving this increase will be considered. For example, it might be decided to adopt one or more of the following alternative lines of action:
  - (a) To reduce selling prices. This may be possible without reducing unit profitability (i.e. the profit per ton, per gallon or etc.) since an increase in sales volume will mean a reduced unit cost of fixed overheads. I propose to refer again later to the question of fixed overheads and their impact on price policy.
  - (b) To improve product quality, provided the additional cost is not excessive.
  - (c) To increase the number of sales representatives.
  - (d) To undertake more (or better) publicity.

Apart from action taken to increase sales volume the percentage return on capital could be increased by the adoption of the following alternative lines of action:

- (e) Cost reduction, not forgetting that part of the cost which is represented by 'overheads'. A searching examination of the operations carried out in offices and laboratories designed to eliminate those that are not really necessary and to streamline those that are, can often produce significant cost reductions.
- (f) Debasement of product quality in order to reduce product cost if, in fact, the existing quality is manifestly superior both to market requirements and to that of competitive products.
- (g) Concentration on the more profitable products or markets at the expense of the less profitable. This policy should not, however, be carried too far since it is unwise to have too many eggs in one basket.
- (h) Increases in selling prices, provided that this is not likely to involve a disproportionate reduction in sales volume.
- (i) Reduction of capital requirements. As regards existing assets this is usually only possible in the case of working capital where reductions could possibly be made by reducing stockholding periods or by tightening up the terms of credit allowed to customers. In the case of fixed assets nothing can be done since the money spent on them cannot be unspent. Future fixed capital investment can, however, often be reduced by paring the cost of planned future plant, office or laboratory extensions. One should not carry this process too far however. It is very easy to be 'penny wise, pound foolish' when investing money in buildings and plant.

25. Finally the board will turn to the cash forecasts which will, of course, have been amended in the light of any changes in the forecasts of profits or capital employed which have resulted from board action on the lines which I have just indicated. If these show that the company is likely to have cash surplus to its requirements the directors will consider the possibility of investing the surplus cash in Government or other securities of a readily realizable nature. If, on the other hand, the forecasts show that there is likely to be a cash deficiency and the total of the company's realizable securities is insufficient to provide for the deficiency, then the directors must decide whether to try to meet the deficiency by means of a bank overdraft or whether the time has come to raise fresh capital either in the form of shares or debentures. Each of these methods of finance has its advantages and disadvantages. Bank overdrafts are suitable for financing temporary or seasonal requirements, particularly of working capital, since interest is only charged on the actual amounts overdrawn. They are unsuitable as a source of permanent capital, i.e. fixed capital and the irreducible minimum of working capital, firstly because banks are normally unwilling to lock up their funds indefinitely in this

way and secondly because there is always the risk that in a period of credit restriction the bank might decide to call on its loan. At such a time it would probably be very difficult to secure alternative finance except on very onerous terms.

#### Short-term Plans

26. To plan in general terms for some years ahead, as described above, is essential for the efficient running of any industrial organization since if this is not done there is a serious danger that the progressive and harmonious development of the business may be suddenly interrupted by shortage of plant or of essential raw materials or of cash. These long-term plans should, however, be supplemented by plans in considerably more detail for much shorter periods and the period usually chosen for financial control purposes is the company's financial year. As in the case of the long-term plan the short-term plan will be based on a sales forecast, but because the period covered is so much shorter and so much closer, the forecast will normally be prepared in much greater detail. The first step, therefore, is for the sales manager to prepare a detailed sales forecast in quantity and value for the coming year for the approval of the board. If the company's business is seasonal in character the forecast should be analysed by calendar quarters.

27. On the basis of the approved sales forecast, the production manager will prepare a detailed manufacturing programme for the year, copies of which will be sent to the works and supply managers. On the basis of the manufacturing programme the works manager will allocate plant for manufacture and will arrange for budgets of their expenditure during the current year to be prepared by the heads of the various works departments. The supply manager will take steps to ensure that the requisite raw materials are available and will estimate their cost. At the same time the managers of the various headquarters departments will be asked to prepare budgets of their expenditure for the coming year.

28. The sales forecasts and expenditure budgets, after approval by the appropriate directors, and the estimates of raw material costs, will be passed to the chief accountant who will prepare for the coming year a profit forecast, a forecast of capital employed and a cash forecast. (A chart illustrating the method of preparing Profit and Cash Forecasts is attached [see page 98] as Appendix A.) These forecasts will be submitted to the board for approval.

29. Board action in regard to these forecasts will, of course, depend on what the figures show. If the forecast return on capital and the chief accountant's explanations are considered to be satisfactory the board will approve the forecasts. If, on the other hand, the forecast return on capital is considered to be unsatisfactory – and particularly if it is significantly

#### Appendix A

#### CHART ILLUSTRATING THE PREPARATION OF PROFIT AND CASH FORECASTS

PROFIT FORECAST		SOURCE OF INFORMATION
GROSS SALES REALIZATIONS Less: Rebates, discounts, commissions, royalties and bad debts NET SALES REALIZATIONS	100 5 95	Sales forecast Estimate by chief accountant, after discussion with sales manager
Less: Cost of sales: Raw materials, packages and services Variable conversion, packing, storage and dispatch costs Carriage GROSS MARGIN	40 10 5	Estimate by supply manager Works budgets Estimate by transport manager
Less: Fixed overheads:     Departmental expenses     Publicity     Depreciation     NET TRADING PROFIT     Add: Sundry income (net)	20 5 6 9	Works and headquarters departmental budgets Publicity budget Estimate by chief accountant based on capital expenditure budget Estimate by chief accountant
NET PROFIT BEFORE TAX	10	
CASH FORECAST		
NET PROFIT BEFORE TAX Add: Depreciation (not paid in cash)	10 6	—
Less: Income and profits taxes  CASH CONTRIBUTION FROM PROFITS	16 5	Estimate by chief accountant
Less: Fixed capital expenditure Increase in stocks Increase in debtors (less creditors) Proposed dividends (net)	4 2 2 2 2	Capital expenditure budget Stock forecast Estimate by chief accountant Board decision
NET CASH GAIN FOR PERIOD	1	7

less than the figure for the year included in the last previous long-term forecast—then the board will take action on the same general lines as that indicated above in regard to long-term forecasts which show unfavourable profit trends. If the situation looks really bad the board may require expense budgets to be cut, in which case the board will indicate the areas of expenditure where reductions are to be made.

30. Requests for budget amendments after the profit forecast has been completed will mean that much of the work involved in the preparation of the original budgets and profit forecast will have to be done all over again. To avoid this the chief accountant will be well advised to prepare, on the basis of the sales forecast and in advance of the preparation by managers of their departmental budgets, a series of approximate profit forecasts calculated on very simple lines, which will show, very approximately, the profits which will be earned on the basis of a number of alternative assumptions in regard to movements in works and departmental expenses compared with the current levels of expense. The advantage of doing this, particularly in times of trade recession, when profits are tending to fall, is that it enables the board, in the light of these approximate profit forecasts, to issue general directions in regard to the maximum permitted levels of staff, labour and expense before the various works and departmental managers prepare their budgets.

31. The profit forecast for the year, when finally approved by the board, will represent the company's official plan for the year. It is no use making plans, however, without taking steps to ensure that the plans are in fact carried out. For this purpose the chief accountant will arrange to submit to each manager, at monthly or quarterly intervals throughout the year, statements comparing the actual expenses of his department to date with the corresponding budget figures. Similarly the sales manager will receive statements comparing the actual and forecast figures to date of sales quantities, net realizations and gross margins. Copies of all these statements will be sent to the directors to whom the managers are responsible and the individual managers will be expected to give to their directors explanations of significant differences between actual and budgeted performance in relation to their own particular functions.

32. Finally, the chief accountant will prepare for the board at the end of each financial period (month or quarter) summary statements showing for the period and cumulatively to date, actual sales, actual usages of raw materials, actual expenses and actual profits compared in each case with the corresponding forecast or budget figures and, if desired, with the corresponding figures for the previous year.

(To be concluded.)

# Weekly Notes

#### MUNICIPAL TREASURERS' EXAMINATIONS

A TOTAL of 1,124 candidates sat for the May examinations of The Institute of Municipal Treasurers and Accountants, and 436 (39 per cent) were successful.

In Part A of the Final, there were 373 candidates, of whom 148 (40 per cent) passed compared with 98 successful candidates (41 per cent) in the November 1961 examination. In Part B there were 271 candidates, of whom 122 (45 per cent) were successful; in the November 1961 examination 93 (47 per cent) passed.

A total of 480 candidates sat for the Intermediate and 166 (35 per cent) passed compared with 98 (36 per cent) last November.

Places and prizes will be awarded on the combined results of these examinations and those to be held next November. The names of the successful candidates in the two parts of the Final examination, together with a summary of the results, appear elsewhere in this issue.

#### CAIPEE

THE Minister of Education, on the application of The Institute of Chartered Accountants in England and Wales, has made a common investment scheme having as its object the establishment of a common investment fund for the property of educational charities in the trusteeship of the Institute or associated with it. The initial participating charities are fifteen Institute prize funds; other charities may from time to time be accepted by the investment trustees for admission, being charities established exclusively for the advancement of education and having power to participate in common investment schemes. The scheme accordingly permits of the inclusion of educational endowments connected with district and students' societies.

The scheme is dated June 8th, 1962, and it came into effect on that date. The fund is given the name of 'Chartered Accountants' Investment Pool for Educational Endowments' (CAIPEE), and the trustees to manage the fund are Chartered Accountants' Charities Ltd.

This scheme is believed to be the first to be established under section 22 of the Charities Act, 1960, but the section, though itself new, gives statutory effect to an existing practice whereby two or more charities delegate to joint nominees the management of their property, the arrangement being sanctioned by a scheme made by the Charity Commissioners or the Minister, as the case may be, or by the Court. In accordance with the provisions of the section, the scheme now made makes provision

for, and for all matters connected with, the investment, management and winding up of the fund. Each charity participating in the scheme is credited with shares in the fund. At the outset there is a division of the fund into f shares, and each charity is credited with as many f shares as the value of that charity's contribution has in pounds. Thereafter there is a half-yearly valuation of the shares, and if a charity subsequently brings in additional funds, or a charity is newly admitted to the scheme, the number of new shares then credited is arrived at by dividing the value of the assets then brought in by the value of each existing share in the fund. Each charity's halfyearly dividend is, of course, calculated by reference to its shareholding. Broadly speaking, the field of investment of the fund is that prescribed by the Trustee Investments Act, 1961, for trust funds, the assets being divided into two pools, 'the equity pool' and 'the restricted pool', of equal market value at the date of division.

The investment trustees may wind up the scheme, but only with the approval of a resolution of the Council of the Institute. On winding up there is a pro rata distribution among the participating charities.

The value of a scheme of this kind to small charities is considerable, because it affords them investment opportunities which they would not otherwise have. CAIPEE is accordingly welcome, and it will be a matter for satisfaction if it proves to be the precursor of many others made under section 22.

#### MONOPOLY IN SCOTLAND

WHILE the effectiveness of the post-war legislation in Britain dealing with monopolies and restrictive practices is a matter of opinion, it is certain that the actual number of cases which come before the Restrictive Practices Court cannot be regarded as a true measure of its success. According to a paper submitted to the Edinburgh conference of the International Bar Association by two Scottish lawyers, Mr K. J. A. Greig and Mr J. R. Fiddes, as the number of cases heard in the Court increases, so the rate of abandonment of restrictive agreements among both producers and distributors tends to increase without the formal institution of proceedings.

As evidence for this thesis the authors cite the only cases so far brought before the Scottish Court – those concerning the Scottish Association of Master Bakers and the Wholesale and Retail Bakers of Scotland Association, heard together. The Court held that the associations had failed to establish their case that their activities were in the public interest, and the agreement was abandoned. A number of other groups terminated their agreements, in particular the Washed Sand and Gravel Associations, and the Scottish Firebrick Association; the former after contesting their case to the stage of submitting a statement of case to the Court. The authors say that the number of cases abandoned either voluntarily or following a decision of the Court, prompts the question whether

restrictive trading agreements are being driven

In a concluding thought the authors assert that the challenge to resale price maintenance is growing in Britain, not least from the supermarkets. Resistance from the manufacturers was inevitable, but the challenge may well eventually be settled, the authors suggest, by a change in the law.

#### THE BANK'S REPORT

THE report of the Bank of England for the year-ended February 28th, 1962, although slightly larger than those of earlier years, is nevertheless a very much slimmer and slighter document than the Bank's Quarterly Bulletin. The brief resume of the year's events in the financial world as they affected sterling and the Bank is based upon the longer accounts contained in earlier issues of the Bulletin. The most interesting feature of this annual report is the information it provides on the currency. Thus, a comparison of note circulation for the five years ended February 1962 shows that the present total is £2,302 million, compared with £1,966 million in 1958, an annual rate of increase of just over 4 per cent.

It is the composition of the note issue which is of most interest. In the year ended February 28th, 1958, of the above total note circulation, £1,338 million was in pound notes and £421 million in five-pound notes. Five years later the former total had been reduced to £1,091 million while the total value of five-pound notes in circulation had more than doubled at £998 million. Another table compares 1956 with 1962; for those two years pound notes represented 76 and 47 per cent of the total note issue, respectively. In contrast, whereas in the earlier year five-pound notes represented only 13.5 per cent of the total note issue, by 1962 the corresponding figure was over 43 per cent.

#### DENIAL BY SATELLITE

PRESIDENT Kennedy took the opportunity of the first Telstar transmission on Monday night of denying emphatically at his Press conference that the United States would devalue the dollar. Perhaps he thought that a denial under these circumstances, when reputedly 200 million people were watching the programme, would be particularly convincing. It has sometimes happened in the past, however, that the more emphatic a denial of a change in monetary policy, the more imminent is that change.

The President's remarks followed a period when gold has been particularly in demand on the London market. Continental buying has been persistent in the last eight weeks although France has intimated that she will not buy any more United States gold for dollars in the immediate future. For some time past Continental central banks have been quite content to hold increasing amounts of their reserves in dollars but there have been signs that confidence in the

dollar has weakened to the extent that gold is being increasingly brought with dollars.

In the spring of this year the Bank of International Settlements was equipped with a gold pool of \$250 million and this reserve is thought to be about exhausted. Indeed, it has been said that the pool may have been reinforced or gold shipped across the Atlantic in some way to avoid appearing in official trade statistics.

President Kennedy said that the United States hoped to bring its international balance of payments into better equilibrium by the end of next year and could indeed do so at any time by cutting down military aid and overseas investment. He said that if the United States were to devalue its currency, others would also devalue their monetary systems. This is true but it does not meet the point that if everybody increased the price of gold, existing gold reserves would be worth more and international liquidity would be correspondingly assisted.

#### CHANGES ON THE STOCK EXCHANGE

THE Stock Exchange Council confirmed on Monday the changes to the rules to permit members to open branches abroad. Reference to the impending change was made in our issue of July 7th, at page 16.

Expansion is, however, not the only theme these days on the Stock Exchange. There has been a long-term trend for jobbers to amalgamate owing to shortage of capital and last week proposals were put forward by a firm of stockbrokers for smaller partnerships to have common services. An application has in fact been sent to the Stock Exchange Council to alter the rules to allow the formation of one service company to provide services for a group of firms.

The idea would be for such a company to act for up to ten firms, supplying statistical and other services. It is hoped that mechanization would be possible if the service were on a considerable scale: certainly there should be a saving of expensive manpower. The attractive business for the stockbroker today comes from the institutions, not from private investors. The institutions are generally equipped with expert advice and statistical services. Like must talk with like and so it is those brokers who have the services available who tend to get the institutions' business.

#### **EUROPE'S MONETARY SYSTEM**

THE Third Annual Report of the Board of Management of the European Monetary Agreement was issued recently in Paris. It considers that confidence in the soundness of the world monetary system is much firmer than at the beginning of 1961. In the past two years the system has been subject to considerable strains in the form of balance of payment difficulties by countries whose currencies are widely used in international payments. There were also fluctuations on the gold and foreign exchange

markets and large movements of short-term capital HIGHER EARNINGS FOR MANUAL WORKERS funds.

The loss of foreign exchange reserves by deficit countries to surplus countries was much smaller in 1961 than in 1960. The main improvement, however, was achieved through advance repayment of debt and transactions with the International Monetary Fund. It is still too early, in the report's opinion, to form definite ideas as to whether the basic balance of payments situation of most countries is in better equilibrium. Meanwhile it considers that Western European countries, Canada and the United States are much better armed to manage disturbances in international monetary systems, especially those which come from the large-scale movement to shortterm funds.

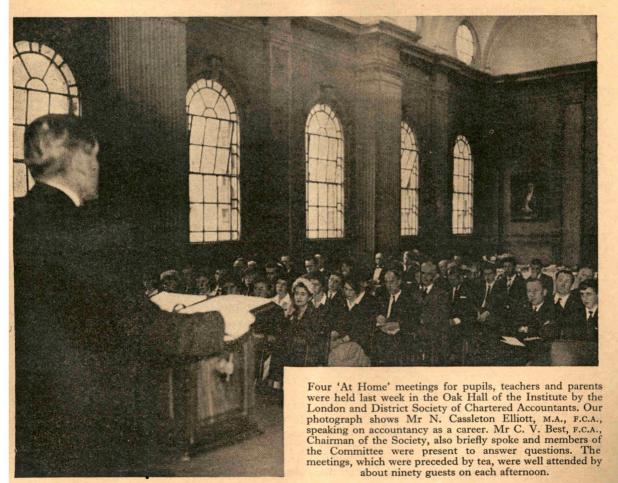
Considerable progress was made in 1961 in developing ways of controlling the effect of these movements on national and international payments. The report hopes that national techniques will be further advanced and international monetary cooperation will be actively continued.

IN spite of the pay pause, earnings for manual work in manufacturing industries were 1.9 per cent higher in April 1962 than they were six months earlier in October 1961. The rise between April and October last year was only o.8 per cent. Men on manual work earned £16 3s 10d a week on the average last April, according to provisional figures issued by the Ministry of Labour, while average weekly hours were 46.6 compared with 46.8 last October and 47.3 in April, 1961.

Average earnings for women in manufacturing industries showed a smiliar increase. This rise of 1.8 per cent, however, was on much smaller money earnings. Average earnings for women were £7 17s 1d.

If other industries as well as manufacturing ones are included in the calculations thereby giving a total of some seven million manual workers, the increase of men's earnings is even more noticeable. It was 2 per cent from last October and 3.8 per cent compared with April 1961.

#### London Chartered Accountants 'At Home'



### Tales of a Tax Man

by HAROLD E. COX

FOR YOUR NOTE-BOOKS

MANY times in the past my accountant friends, when preparing a talk or toast, have asked me for an amusing and apposite anecdote. The following miscellany could perhaps be appropriately filed, for use on such an occasion.

Confucius, so it is claimed, told the following story: 'Once I was walking in the mountains and saw a woman weeping by a new grave. I asked her the reason for her grief and she explained: "We are a family of hunters. Both my father and my husband were killed by tigers. And now my son has just been killed". 'Why don't you move away from this place?' "Oh, no!" said the woman. 'Why not?' I asked. And the woman replied: "Because there are no tax gatherers here".'

In John Earle's *Microcosmographic* (1628) there is this description of 'A Medling Man':

'He will take you aside and question you of your affaires, and listen with both eares, and looke earnestly: and then it is nothing so much yours as his.'

There were no Inspectors of Taxes in those days.

Young accountant to inspector, hopefully: 'Perhaps we can arrive at some compromise.' He should have been told the story of the bear who met a hunter and asked him what he was looking for. 'I want to get myself a fur coat for the winter.' 'Well', said the bear, 'I'm looking for my dinner. Why can't we talk this over, we can surely arrange some compromise.' And so the hunter followed the bear into a cave. Some time later the bear walked out alone. They had reached a compromise – the bear had had his dinner and the hunter had a fur coat.

"The law does not say there are to be no cakes and ale, but that there are to be no cakes and ale except as required for the benefit of the company." (Hutton v. West Cork Railway Co (1883 Ch.D.).)

Note the date: they were at it even then.

A rebel: 'If you don't stop badgering me with all these questions I shall change my inspector.'

A small boy had a shilling stuck in his gullet. His mother, a couple of neighbours and even a doctor, had failed in their efforts to make him eject it. Then another neighbour said: 'Just a moment, I know someone.' A few minutes later she returned accompanied by a brisk important-looking man. He took the child into another room and in a very short time brought him out again, slapped a half-crown down on the table and hurried out. You're allowed one guess only.

From the will of an Essex testator which was duly admitted to probate: 'From the grave I curse the

Board of Inland Revenue. All Inspectors of Taxes are sadistic and depraved individuals with no sense of equity, justice, or even common decency.' I wonder what they had done to him. He directed that a copy of the relevant part of his will should 'be sent to every Inspector of Taxes with whom I have ever had any dealings, to each member of the Board of Inland Revenue, and to whoever is the dishonest Chancellor of the Exchequer of the day'. He must have felt better when it was out!

From Professor Dicey's Law of the Constitution published in 1885:

"The whole revenue of the nation is paid into the Bank of England to the "account of His Majesty's Exchequer", mainly through the Inland Revenue Office. That office is a mere place for the receipt of taxes; it is a huge money-box into which day by day moneys paid as taxes are dropped, and whence such moneys are taken daily to the Bank. What, I am told, takes place is this. Each day large amounts are received at the Inland Revenue Office; two gentlemen come there each afternoon in a cab from the Bank; they go through the accounts for the day with the proper officials; they do not leave till every item is made clear; they then take all the moneys received, and drive off with it and pay it into the Bank of England.'

No coshes, no guns. Fings ain't what they used to be.

I recall examining the accounts of an undertaker in which there was quite a substantial charge for entertainment expenses. This was an opportunity not to be missed. I wrote to the accountant submitting that his client could hardly claim he was entertaining his customers; neither was it conceivable that prospective customers would relish discussing cerements with their soup or coffins with their coffee. The accountant rallied and in his reply reminded me that the Romans had a practice of exhibiting skulls at their banquets and sometimes miniature skeletons of silver, as a silent admonition to the guests to enjoy life while it lasted.

An elderly lady wrote despairingly:

'I have called at your office three times altogether for my rebate. The first time I was told the delay was due to the man working my case dying suddenly. The next time the girl then working my case was away sick. Will you now please put a strong healthy man on the job.'

Extract from the rules of a friendly society:

'If any brother shall strike another in Lodge he shall be fined 5s; if the offended brother strike in return he shall be fined 2s 6d. If any brother strike another out of Lodge he shall be fined 10s and if the brother so struck return the blow he shall be fined 5s.'

May I conclude with a quotation from a letter I once received from an undertaker: "Thanking you for past favours and assuring you of my best personal attention in the future'.

Our 'Industrious Accountant' returns to our columns next week - Editor.

# Finance and Commerce

#### Dixons Photographic

ROM time to time, our weekly reprint of company accounts is varied to present instead an extract from a published prospectus or similar statement which includes an accountant's report. This week, then, for the wider interest of readers, the reprint comes from the Statement of Information published in connection with the marketing of the 2s shares of Dixons Photographic Ltd, a name probably well-known to many whose hobby is photography.

The law invests such documents with their own special importance and places a grave responsibility on those charged with their preparation and publication. In this particular case, interest is immediately centred upon the extraordinary growth of profits from a mere £1,663 for the year ended March 1953, to £160,776 for the year to April 1962. To some extent this exemplifies public spending power – an ability to use present earnings, or to pledge the future, on cameras, cine-cameras, and associated equipment. It also shows what can be done by the application of big business' methods.

#### **Big Scale**

The company was registered in 1937 as Dixons Studios. Mr Charles Kalms, now aged 65, ran a portrait studio. The dropping of that line after the war for concentration on large-scale buying and intensive selling of photographic equipment is very much a demonstration of the surging energy of youth, ypified in Mr Kalms's son, Mr Stanley Kalms, the present managing director, aged 30; Mr Peter Kalms, A.C.C.A., a cousin, who is financial director, aged 32; and non-related Mr Ernest Shenton, sales director, aged 31.

Mr Stanley Kalms goes out to see foreign manufacturers of photographic equipment, notably the lapanese, on their own ground and buys on a big scale, with the obvious price advantage that large-scale buying produces. Selling is partly through tetail shop outlets, but very much through the mail-order business attracted by extensive advertising in the photographic journals and national Press.

Mr Kalms believes that the new Dixons camera shop shortly to be opened in Oxford Street, London, will be the biggest this side of the Atlantic. One point that illustrates the thought behind this 30-getting business is that this new project will cater for foreign camera enthusiasts in nine languages.

#### For Information Only

RATHER interesting reason is given for not writing into the accounts of F. Hills & Sons the increased values for land and buildings in the United Kingdom resulting from a professional revaluation. To obtain a 'more realistic' view of the company's land and buildings thus situated, states Mr M. B. Browne, the chairman, these assets were valued at March 31st, 1962, to show an overall surplus of some £369,257 over book value. Book value in the parent balance sheet (as a matter of expediency, revaluation was not undertaken in respect of the company's fixed assets in Ghana) was £476,453 less accumulated depreciation of £160,227, making £316,226 net, the basis for the figure being a professional valuation in 1936 or cost in the case of later acquisitions.

But as the revaluation was initiated 'primarily for the information of shareholders' the directors do not propose to disturb existing book values. This might almost imply that the accounts are not intended primarily for the information of shareholders, although Mr Browne could hardly have intended such an implication.

#### Lansil

SIR J. DONALD HORSFALL, chairman of Lansil Ltd, draws shareholders' attention to the result of a revaluation of land, buildings and water rights. The balance sheet view has been decidedly changed. As compared with £905,245 less £199,899 depreciation, leaving £705,346 in the 1961 comparison column, these assets now stand at £1,426,268, less £2,708 depreciation, making £1,423,560 net.

Capital reserve has benefited by the credit of £632,652 revaluation surplus, which now stands at £712,364, from which £336,250 is being transferred to capital account by a capitalization which doubles the issued ordinary capital, leaving the units as a 5s denomination, instead of units of 2s 6d.

Sir Donald says it has not been thought expedient at this time to consider revaluing the plant, in view of its extreme complexity and the expense of such an operation. But shareholders will appreciate, he adds, that the valuation given in the balance sheet does not represent 'anything like the present-day value'. The plant item in the consolidation at March 1962 was at £3,805,365 cost, less £2,459,913 aggregate depreciation, leaving £1,345,452 net.

The thought is nevertheless prompted as to whether it ought not to be possible to give some closer indication of current plant value. Presumably, it is insured – for how much?

The Chemstrand Company of New York, meanwhile, has put a worth of £2.9 million on the Lansil equity by bidding 21s 6d for the 2s 6d shares. On Wednesday the Lansil directors unanimously recommended acceptance of the offer, which is, of course, subject to Treasury consent.

#### DIXONS PHOTOGRAPHIC LIMITED

#### SHARE CAPITAL

Authorise	ed: .		ssued and ully Paid:
£300,000	in 3,000,000 Ordinary shares of 2s. each	 	 £150,000
50,000	in 500,000 Deferred shares of 2s. each	 	 50,000
£350,000			£200,000

On 23rd June, 1962, there were outstanding (a) on mortgage of the Company's freehold property the sum of £2,775; and (b) on promissory notes issued by a subsidiary to a Finance Company, secured by the assignment of hire purchase and credit sale agreements, the sum of £287,421. The Company has given its bankers a mortgage and general charge supported by an unlimited guarantee by a subsidiary to secure its overdraft from time to time; at the aforesaid date there was no bank indebtedness. Save as aforesaid neither the Company nor either of its subsidiaries has any debentures, debenture stock, mortgages or other loan capital, guarantees or bank overdrafts outstanding.

ACCOUNTANTS' REPORT.—The following report has been received from Hereward, Scott, Davies & Co., the Auditors to the Company, and Peat, Marwick, Mitchell & Co.:—

The Directors,

DIXONS PHOTOGRAPHIC LIMITED SETON TRUST LIMITED

4th July, 1962.

#### Gentlemen.

We have examined the audited Accounts of Dixons Photographic Limited ("the Company") (formerly Dixon Studios Limited) and of its wholly-owned subsidiary companies Dixon (Edgware) Finance Company Limited ("Dixon Finance") and Fotopost Limited ("Fotopost") for the periods relevant to this Report.

The entire share capitals of Dixon Finance and Fotopost were acquired by the Company on 26th April, 1961, for an aggregate consideration of £6,000 payable in cash.

The Company and its subsidiaries are referred to collectively as "the Group".

#### We report as follows:--

1. Profits.—The combined profits of the Group attributable to the members of the Company, arrived at on the basis stated below, were as follows:-

			(1)	Profits before Taxation (2)
Year ended 31st N	1ar	ch, 1953		£ 1,663
., ,,				2,559
,, ,,		1955		3,615
,, ,,		1956		5,876
17 17		1957		8,823
19 19		1958		6,810
25 77		1959		24,637
,,		1960		, 30,184
13 months ended	30t	h April,	1961	77,374
Year ended 30th	Apr	il, 1962		160,776

NOTES .- (1) The profits before taxation set out in column (2) above are arrived at:-

- (i) after charging all expenses including Directors' emoluments, interest payable, amortisation and depreciation of fixed assets as charged in the accounts; and
- (ii) after crediting commissions receivable from an associated company; and
- (iii) after making such adjustments as we consider appropriate.
- (2) Physical inventories in respect of stocks prior to 30th April, 1961, are not now available. Peat, Marwick, Mitchell & Co. have therefore been unable to confirm either that stocks were properly taken and valued on a consistent basis up to that date or that the allocation of profits between individual years up to and including the period ended 30th April, 1961, is correctly stated.
- (3) At 30th April, 1961, the Company changed its accounting practice so as to carry forward a provision for unrealised profit on Hire Purchase sales; adjustments have been made to the results of earlier years to bring them on to a comparable basis.
- (4) No depreciation is provided in respect of freehold property. Amortisation of leaseholds (which is not an allowable deduction for taxation purposes) amounted in the year ended 30th April, 1962, to £1,630; the charge for the year ended 30th April, 1963, in respect of leaseholds owned by the Company at 30th April, 1962, as revalued, will amount to £5,000.
- (5) The profits of Dixon Finance and Fotopost are included as from the date of acquisition, 26th April, 1961, the aggregate amounts so included in respect of the period from that date to 30th April, 1962, being £417.
- (6) The emoluments of the Directors of the Company for the year ended 30th April, 1962, amounted to £14,115; under the arrangements now in force the emoluments payable to the present Directors would have amounted to £15,500.

II. Net Assets.—The following is a statement of the net assets of the Company and of the combined net assets of the Group based on the audited Balance Sheets at 30th April, 1962, adjusted to take into account (a) the issue for cash of 500,000 Deferred Shares of 2s. each at par and (b) the estimated costs and expenses payable by the Company in connection with the said issue, the reorganisation of capital and the application to The Stock Exchange, London.

THE	COMPAN	Ι¥	•	TH	E GROU	P
£	£	£	FIXED ASSETS	£	£	£
74.000	77,250 3,250		Freehold and Leasehold Properties at Professional valuation at 30th April, 1962		77,250 3,250	74,00
. ,,000	124,456 27,684		Furniture, Fixtures, Fictings and Motor Vehicles, at cost		124,830 27,958	,•
96,772					_	96,87
70,772			INVESTMENTS:			170,87
		6,000 I	Shares at cost: Subsidiary Companies Associated Company			
0.141	6,001 2,140		Quoted investments (Market value £1,707)		2,140	2.14
8,141			CURRENT ASSETS:			2,1
	288,548		Stocks at lower of cost and net realisable value		288,548	
•		46,444	Amount owing by Subsidiary Company	343,528	Mount	
	21.651	24,793	Deduct: Provision for unrealised profit on hire purchase sales and unearned interest	51,529	291,999	
	5,474		Amount owing by Associated Company		5,484	
	11,947		Sundry Debtors and Prepayments		11,947	
	16,000		Tax Reserve Certificates		16,075	
	433		Cash at Bank and in Hand		8,171	
	£344,053		B 45-144		£622,224	
•			DEDUCT: CURRENT LIABILITIES:	•		
	19,959		Bank Overdraft (secured)		19,959	
	177,745		Trade Creditors and Accrued Charges		178,666	
			Bills payable (secured by the assignment of Hire Purchase Agreements)			
			Deduct: Interest allocated to future periods	11,447	271,572	
	4,610		- Amount owing to Subsidiary Company		2/1,3/2	
	46,300		Taxation, including Income Tax accrued to date	•	47,553	
	3,445		Dividend (less Income Tax)—since paid		3,445	
	£252,059		•		£521,195	
91,994			NET CURRENT ASSETS			101,
70,907			DEDUCT:		•	274,
			Amount Set Aside for Future Taxation:			
	27,500 64,000		11/12ths Income Tax 1962/63		28,399 64,145	
91,500			miconie rax (703/04			92
79,407	;		NET ASSETS AT 30th APRIL, 1962	-	•	181
	50,000		ADD: Proceeds of Issue of 500,000 Deferred Shares of 2s, each at par		50,000	
42,000	8,000		Less: Estimated Costs and Expenses payable by the Company		8,000	
221,407		-	ADJUSTED NET ASSETS			£223
			Note.—Capital commitments: The Company £6,000,			
			The Group £6,000.			

III. Dividends.—Dividends have been paid by the Company at the rate of 6 per cent per annum on its 6 per cent Redeemable Cumulative Preference Shares which were finally redeemed on 26th February, 1962, as follows:—

Period	Nominal Capital on which dividends paid
lst April, 1954 to 31st March, 1959	1,690
lst April, 1959 to 31st December, 1959	1,415
1st January, 1960 to 31st March, 1960	1,625
Ist April, 1960 to 7th October, 1960	1,600
8th October, 1960 to 26th February, 1962	865

No dividends have been paid by the Company on its Ordinary Shares In respect of the period 1st April, 1952 to 31st March, 1960, or in respect of the year ended 30th April, 1962. A dividend of 37½ per cent actual, less income tax, has been paid by the Company on the issued Ordinary share capital of £15,000 in respect of the period of thirteen months ended 30th April, 1961.

IV. Accounts,-No accounts of the Company or its subsidiaries have been made up in respect of any period subsequent to 30th April, 1962.

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#### ACCOUNTANT

#### CITY NOTES

If the stock-markets mirror public opinion to any accurate degree, the Government's image — for all the new faces and the new outline of policy — remains more than a little tarnished. Investment business in the stock-market is virtually at stagnation point, and the market itself is undoubtedly feeling the effect of the short-term capital gains tax.

Lord Ritchie, Chairman of the London Stock Exchange Council, has made the point that the shortterm gains tax is being imposed in the manner which the Stock Exchange warned the Treasury would have the most harmful effect on market business.

It is estimated that the tax has resulted in a reduction of some 25 per cent in the volume of short-term business on which the market relies as a stabilizing influence.

Absence of this business must inevitably result in a less commercial market in which dealings become more difficult. It is already being reflected in merger moves by leading jobbing firms and in an attempt by smaller broker firms to explore possibilities of some kind of pooling arrangement in order to hold if not reduce the level of operating costs.

Such matters are admittedly brought into sharp focus in a period of slack business. A revival of business might push them a little into the background, but while uncertainty and doubt persist in the investment mind a worth while and reliable improvement in prices and in business activity seems some way off. The consolation is that the market mood can and does change quickly.

#### RATES AND PRICES

Closing prices, Wednesday, July 25th, 1962

Tax Reserve	Certificates:	interest rate	(28·4·62) 23/8
Oct. 27, 1960 Dec. 8, 1960 July 26, 1961 Oct. 5, 1961	Bank 5½% 7% 6½%	Nov. 2, 1961	6% 5½% 5% 4½%
	Treasu	ry Bills	
June 1 £3 June 8 £3	17s 1.04d% 16s 3.81d% 15s 7.98d%	June 22 £ June 29 £ July 6 £ July 13 £	3 16s 11·8d% 3 18s 5·03d% 3 18s 0·63d% 3 17s 9·32d% 3 18s 7·14d%
	Money	Rates	
Day to day 7 days Fine Trade Bill 3 months 4 months 6 months	27-37% 27-37%	Bank Bills 2 months 3 months 4 months 6 months	4 16-4 16% 4 16-4 16% 4 16-4 16% 4 16-4 16%
	Foreign E	xchanges	
New York Montreal Amsterdam Brussels Copenhagen	2·80 <del>\$\frac{5}{2}</del> 3·02 <del>{\frac{7}{6}}</del> 10·08 <del>{\frac{1}{2}}</del> 139·50 19·38	Frankfurt Milan Oslo Paris Zürich	11·18 <u>4</u> 1740 <u>4</u> 20·03 <del>§</del> 13·74 <del>§</del> 12·12 <u>4</u>
	Gilt-e		
Consols 4% Consols 2½% Conversion 5½ Conversion 3½ Conversion 3½ Exchequer 5½% Funding 5½%	7 1971 94 18 7 1969 90 1	Funding 3% 6 Savings 3% 6 Savings 2½% Treas'ry 5½% Treasury 3½% Treasury 3½%	00-70 84 16 05-75 74 8 04-67 88 1 2008-12 92 16 86-89 86 16 77-80 73 1 79-81 72 1
Funding 4% 6 Funding 3½%	0-90 90 <del>1</del> 99-04 62 <del>1</del>	Treasury 2½% Victory 4%	% 42∕ 96 <del>}</del>

### Reviews

#### Managerial Accounting for Small Business

by JOHN D. DALE. (Reinhold Publishing Corporation, New York: Chapman & Hall Ltd, London. 40s net.) This is a book to be read on recommendation rather than on casual acquaintance, and this review seeks to recommend. Appearances, both in style of production and language, are against it: it looks - as it is - an American 'home study' book for the busy manager of a small business who has somehow escaped formal instruction in management. The author takes a wide sweep, which includes basic accounting, the setting of standards, the compilation of budgets, management reporting in financial and non-financial terms, control of physical resources, work study and standard costing. Surprisingly, he succeeds in saying useful things about each of these subjects within 163 pages of text. Since the book is almost pocket size and the print is large this is particularly remarkable. What is more, this is achieved in sound and simple English

with only a few instances of lax writing. On the other hand, it is almost certain that these few lapses together with the examples of empirical spelling of certain words will be what will strike the eye of the person who picks the book up casually.

Funding 3% 66-68

It would be nice to believe that qualified accountants could skim through the book and then slip it nonchalantly to chosen clients for their edification; but the fact is that many accountants should study it first and then make a further extensive use of the bibliography which is provided. It is a pity, incidentally, that a book which uses basic English so well, and which could be as useful in Bangalore or Blantyre as in Baltimore or Birmingham, follows a positively isolationist line in the books and articles it recommends, and can in fact only recommend two articles and no books published in Britain.

The book is really designed to help the manager of the small business and, if he happens to be the manager of a very small business, he should not be put off by such remarks as 'a computer vastly simplifies the mechanical work of preparation'. Many of the ideas which are put forward in this book may be immediately applied if they are not already in opera-

tion. Of course, there are moments when the author has to be glib in order to pack so much into so small a compass but he does suggest in the bibliography where the reader should go for a more detailed study of any aspect. At the least the book offers a down-to-earth introduction on what is implied by the term 'management accounting' in Britain. This function has not been very well performed in other cases and the book is valuable for this reason.

### Formation and Management of a Private Limited Company

by F. D. Head, B.A., *Fifth edition* by Margaret Booth, Ll.M., Barrister-at-law. (Sir Isaac Pitman & Sons Ltd, London. 21s net.)

Timing with any book dealing with company law is a great problem. The fourth edition of this book appeared in 1950, just after the existing Companies Act. The present edition has almost immediately been overtaken by the report of the Jenkins Committee which contains a number of recommendations regarding private companies, especially the 'exempt status' companies, and resulting amended legislation may well call for a sixth edition before long. Time has already caught up with the book in one small detail: since its publication, the offices of the Registrar of Companies have moved from Bush House to City Road.

These are by no means criticisms of a most readable and helpful book whose appeal should not be confined to directors or secretaries of private companies (or those about to be!) but should also continue to provide an excellent and convenient means of keeping the major points in mind when a professional man is called upon to advise his clients. Points of interest to registrars are also dealt with, and a feature of the book is its use of ordinary everyday language. Nor does it fall into the fault from which others of the type so often suffer – that of trying to explain problems which in practice require professional attention.

The section on meetings is especially helpful in view of the lack of training in such matters of so many private company secretaries. Copies of the major forms and Table A of the Companies Act, 1948, as well as a specimen vending agreement are included and the book is altogether well produced.

#### The Principles of Production Control

by John L. Burbidge, A.M.I.MECH.E., M.I.PROD.E., M.B.I.M. (Macdonald & Evans Ltd, London. 50s net.)

This book attempts to set out in one volume the many aspects of production control. This requires the author to discuss, in addition to production planning and inventory control as such, aspects of organization, plant layout, capital employment, parts coding, work study synthetics, cost elements, work scheduling, machine loading, purchasing and dispatching. In this

he succeeds admirably and has produced a book which is both comprehensive and readable.

The tyro seeking a broad yet detailed knowledge of the many facets of production control need not be daunted by this work. The accountant, although he might not agree with all that Mr Burbidge has to say on costing, will be amply rewarded by the sections dealing with 'The design of the material flow system' and 'Methods of production control'; even the operational research fraternity may take some comfort from the remarks made about the value of their discipline in production control, although they may be inclined to quarrel with the statement 'They are therefore techniques of little practical use to the majority of medium and small companies, except in so far as they can be applied by employing consultants.' This is surely crediting operational research with being far more of an esoteric art than it really is, or is it that operational research has scared even one so experienced as Mr Burbidge?

Two minor criticisms are, first, the tendency to invent new gobbledegook like 'totoptal' and 'margoptal', particularly when the author himself states, 'These two special varieties of cost are never used for costing in practice, and the names will be generally unknown . . .'; secondly, the type-face and presentation of the book which leave one in no doubt that this is a textbook. This is a pity because the book is neither stodgy nor dull. Why must publishers make textbooks, even good ones like this, look so uninviting?

#### **Business Economics and Statistics**

by A. J. Merrett and G. Bannock. (Hutchinson & Co (Publishers) Ltd, London. 42s net.)

A basic requirement for an understanding of this book is at least the additional mathematics paper at 'O' level, or a good knowledge of basic statistical theory. The reader so equipped will find in this volume a very competent discussion and exposition of three important techniques which are extensively employed in large-scale business undertakings. The first is the use of micro-economic analysis in accounting problems, followed by a longer section on forecasting techniques such as time series analysis and simple regression analysis. The final section dealing with sampling procedures in market research is the longest section of a book which will deserve careful study by the reader with adequate algebra.

#### The Finance of Local Government

by J. M. DRUMMOND, F.S.A.A., F.I.M.T.A. revised by W. A. C. KITCHING, A.I.M.T.A., D.P.A. (George Allen & Unwin Ltd, London. 25s net.)

#### Local Authority Borrowing

A research study. (The Institute of Municipal Treasurers and Accountants, London. 30s net.)

Ten years have elapsed since the first edition of Drummond's deservedly widely-read standard text-

book appeared. The changes in local government finance and the emergence of new problems have necessitated substantial additions and revision. This has been most competently carried out by Mr Kitching who has ensured that the standard of this most useful book for students and others interested in local authority financial problems is fully maintained.

The second study from a research group of the I.M.T.A. (of which, incidentally, this year's President was the leader) is also a revised edition of a book which first appeared in 1957. The interested reader and student will find an authoritative assessment of the various borrowing procedures followed by local authorities clearly expounded, and with conclusions clearly stated. This revision affirms the high quality of the I.M.T.A. research studies.

#### Companies in the Common Market

by R. R. Pennington, Ll.D. (Solicitors' Law Stationery Society Ltd, London. 8s 6d post free.)

This pamphlet is based on a reprint of a series of ten articles, which appeared in the Solicitors' Journal, dealing with certain aspects of company law in the European Economic Community. Taxation is not discussed, nor are the more specialist matters of liquidations, mergers and reduction of share capital. Dr Pennington summarizes the salient features of the law relating to companies, i.e. formation, capital, shareholders and management for the members' countries. A final chapter discusses some of the legal issues confronting a British company transacting business in the Common Market.

#### **Dymond's Death Duties**

### Second (Cumulative) Supplement to Thirteenth Edition

by REGINALD K. JOHNS, LL.B. (The Solicitors' Law Stationery Society Ltd, London. 175 6d net.)

This supplement contains no less than fourteen pages under the heading 'Proper Law of Wills and Settlements. Foreign Immovable Property and Movable Property'. This new matter all arises out of the decision in *Philipson-Stow v. C.I.R.* which upset the existing practice. There are also several pages devoted to the decision in *Coutts & Co v. C.I.R.* concerning chargeability of settled property on the death of a surviving spouse. Thus, although the Finance Act, 1961, introduced no changes in estate duty, the Courts have been busy enough with this topic.

#### SHORTER NOTICES

THE DESIGN OF FORMS IN GOVERNMENT DEPART-MENTS. (Her Majesty's Stationery Office, London. 21s (by post 23s).) Few people enjoy filling up forms but for any administrative body dealing with the public – more especially one as large as a Government department – forms are essential. Much can be done to simplify form-filling, as well as the interpretation and assembly of the information contained thereon. This interesting book explains, with copious illustrations, what the Government has done in this field. Anyone dealing with O. & M. matters should read and study this work.

An Introduction to British Economic Statistics, by E. Devons. (Cambridge University Press, London. 12s 6d net.) This is a paper-back reprint of the 1958 edition of a book written in 1955 and supplemented by a short appendix drawing attention to changes in the published data described in the main text.

THE RATING AND VALUATION ACT, 1961, with introduction and annotations by E. Roydhouse, LL.B. (Butterworth & Co (Publishers) Ltd, London. 25s net.) Practitioners will find this reprint of statutes supplement – No. 129 in Butterworth's annotated legislation service – useful and authoritative. Apart from the schedules to the 1961 Act, appendices cover the relevant sections of the 1925 main Act, that of 1948, and also supplementary legislation of 1953 and 1955.

#### RECENT PUBLICATIONS

DIFFERENTIAL DISTRIBUTION COST AND REVENUE ANALYSIS:
A New Approach, by Frank H. Mossman. 35 pp. 10×7.
Card covers. \$1. Bureau of Business and Economic Research, College of Business and Public Service, Michigan State University, East Lansing, Michigan.
INDUSTRIAL RELATIONS: CONTEMPORARY PROBLEMS AND

Industrial Relations: Contemporary Problems and Perspectives, edited by B. C. Roberts. xvi+288 pp. 8½×5½. 30s net (U.K. only). Paperback edition also available 18s net. Methuen & Co Ltd, London.

ADVERTISING IN ACTION, by Ralph Harris and Arthur Seldon. xiii+346 pp. 8½×6. 30s net. Hutchinson & Co (Publishers) Ltd, London.

THE DEVELOPMENT OF THE BRITISH ECONOMY, 1914-50, by Sidney Pollard. ix+422 pp. 9½×6½. 30s net. Edward

Arnold (Publishers) Ltd, London.

DE CIVIELRECHTELIJKE AANSPRAKELIJKHEID VAN DE OPENBARE ACCOUNTANT NAAR ENGELS EN NEDERLANDS RECHT (The public accountant's civil liability in accordance with English and Dutch law), by C. Boertien, ILM. 222 pp. 9×6½. Paper covers. Fl12,50. Tjeenk Willink, Zwolle.

THE 1961 RESEARCH REPORT ON FARM ACCOUNTING, 91 pp. 10×6. Card covers. 15s. Issued by New Zealand Society of Accountants in association with Victoria University of Wellington Department of Accountancy, P.O. Box 5039, Wellington, New Zealand.

5039, Wellington, New Zealand.

THE LAW LIST 1962, edited by Leslie C. E. Turner.

xxiv+2,569 pp. 9×6. £2 175 6d. Stevens & Sons Ltd,

NOOME TAX FOR THE CLERGY, by The Reverend J. E. Gilbert, F.C.A. xv+107 pp. 7½ × 5. Paper covers. 9s 6d net. Society for Promoting Christian Knowledge, Holy Trinity Church, Marylebone Road, London NWI.

"TAXATION" KEY TO INCOME TAX AND SURTAX, edited by Percy F. Hughes. Fifty-third edition. 247 pp. 8½×5½. Paper covers. 128 6d net. 138 (including postage). Taxation Publishing Co. 1td. London.

Publishing Co Ltd, London.

EQUITABLE ASSURANCES, The Story of Life Assurance in the Experience of The Equitable Life Assurance Society, 1762–1962, by M. E. Ogborn, F.I.A., F.S.S. 271 pp. 9½ × 6½. 42s net. (United Kingdom only). George Allen & Unwin Ltd, London.

These books may be obtained from, or through, Gee & Co (Publishers) Limited, The City Library, 151 Strand, London WC2.

#### LAW REPORT

#### HIGH COURT OF JUSTICE

(Chancery Division)

#### RULING ON FLOATING CHARGE

#### Yeovil Glove Co Ltd (in liquidation) v. National Provincial Bank Ltd

Before MR JUSTICE PLOWMAN [Wednesday, July 18th]

IS lordship ruled that a floating charge over the assets, goodwill and undertaking of Yeovil Glove Co Ltd, was valid to secure the company's indebtedness to the National Provincial Bank Ltd, notwithstanding that it was created less than a year before the company was compulsorily wound up.

The applicant liquidator, Mr Arthur Malcolm Cooper, F.C.A., of Westminster Bank Chambers, Yeovil, had contended that the floating charge was void against him under section 322 of the Companies Act, 1948.

Giving judgment, his lordship said that the floating charge was created on January 24th, 1958, by way of further securing moneys covenanted to be paid under a previous legal charge of the company's property made in 1957.

The company was incorporated in 1934, its authorized capital being £50,000, of which £40,518 was issued and paid up. It was a family business, all shares being held by the directors. It had two accounts at the Yeovil branch of the bank until early 1957 when the company was indebted to the bank for about £65,000, to some extent guaranteed by the directors personally. The head office of the bank were not satisfied with the position, and required a wages account to be opened to ensure that the bank got the maximum benefit of section 319 (4) of the Act in respect of advances for wages and salaries ranking as secured debts.

A wages account called the No. 3 account was opened in February 1957, the bank instructing the company to transfer from its No. 1 account to No. 3 a sum covering the wages paid in 'week 1' when an eighteen-week cycle expired so that the account was like a tank full of water, with a tap at the top and an outlet at the bottom. The money in the 'tank' would thus afford the maximum statutory security to the bank.

In March 1957, at the bank's request, a similar account was opened for salaries, and called No. 4.

The company charged certain of its property in favour of the bank in June 1957, but later in the year the bank intimated that further security was required or its overdraft would be called in. The floating charge was executed in January 1958, when all four accounts were overdrawn to a total amount of about £67,500, which was the limit imposed by the head office.

The property charged included some leases not charged in the earlier mortgage, its uncalled capital, further property, its undertaking and goodwill, assets and rights.

On August 20th, 1958, the bank appointed a receiver. Until then, all four accounts were maintained.

After then, they ceased operation as between the bank and the company.

When the receiver was appointed the company's debt to the bank was £67,857. The receiver realized assets and made certain payments, and the applicant liquidator stated that if the bank's security was valid there would be nothing for unsecured creditors in the winding-up.

It was agreed between the parties that the floating charge was created within a year of the commencement of the winding-up, that it was not proved nor sought to be that the company was solvent immediately after its creation, that no cash was paid to the company in consideration of the charge.

The bank contended that the floating charge was a valid security, and that cash was advanced subsequent to its creation. The dispute was whether any cash was advanced subsequently to its creation.

The word 'consideration' in the expression employed in section 322 had a technical meaning in the law of contract. It was argued that consideration for subsequent advances must necessarily be past consideration and therefore invalid.

In his lordship's judgment, the bank's contention that the expression 'consideration for the charge' meant 'in consideration of the fact that the charge exists' was right. The relevant question of fact was whether the payments would have been made had the charge not been given.

Mr Justice Romer (as he then was) dealt with the point in Re Thomas Mortimer Ltd in 1925 which was reported only in Vol. 46, Journal of the Institute of Bankers, but his lordship had a copy of the judgment. That case was authority for the proposition that the words of exception in section 322 were capable of applying to a floating charge given by a company to secure its current account, even though the bank was under no obligation to make further advances.

In the circumstances, it appeared to his lordship that payments by the bank to the company or third parties after the creation of the floating charge were fresh advances of cash; made in consideration of the charge. Unless it had been given, the bank would not have allowed further drawing.

That left the question to what extent the bank had been repaid by the company, or what proportion of the advances was unpaid at the time of winding up. A preferential claim under this head and section 319 (4) was made by the bank in the sum of £21,000. The liquidator disputed the bank's contention that apportionment of repayments should be made under the rule in Clayton's case.

There was no evidence of any arrangement between the company and the bank to appropriate particular payments to particular indebtedness so as to prevent this rule applying to all the accounts.

In the result, his lordship was satisfied that the bank paid cash to the company after creation of the charge, which was not repaid before the winding up. Unless a figure could be agreed, there would have to be an inquiry as to the precise amount.

For the applicant liquidator, Mr Muir Hunter (instructed by Mathew Trackman, Lifton & Cunnington); for the Bank, Mr L. A. Morris Smith (instructed by Wilde, Sapte & Co).

A monthly feature designed to keep readers - whether in practice or in commerce - abreast of the latest developments in the field of office equipment.

#### Work Speeder for the Pay Office

COUNTING and handling coins is a slow and dirty job which is completely eliminated by a new electric machine. Keyboard operated, it dispenses coins of any total value from  $\frac{1}{2}d$  to 9s  $11\frac{1}{2}d$  straight into wage envelopes and handles forty to fifty coins per minute.

Normal method of operation is for the user to depress the keys with the right hand while holding the pay envelope below the machine chute with the left. For left-handed people, however, this arrangement can easily be reversed. The keys are marked in shillings from one to nine, in pence from one to eleven and there is also a halfpenny key. The keyboard may be an integral part of the machine or a separate, remote control unit. Alternatively, the machine may be operated by a specially adapted add-lister. This allows production of a printed record of each operation, plus sub and grand totals as required.

Money is stored in a nine-channel large capacity tray of stainless steel. This can be loaded into the machine without interfering with its operation and, since it can be stood on any level surface without spillage, can be removed without unloading. For security, it can be covered with a locking lid.

Various safeguards obviate mistakes as far as possible. Keys once depressed remain in this position until a motor bar is pressed to activate the dispensing mechanism. Self-cancelling keys preclude the setting of two amounts simultaneously in the same bank. A warning light shows when any coin channel is nearly empty. Though the machine accepts slightly defective coins, a badly bent one will jam the dispensing mechanism. Should this occur, a buzzer sounds and no further payment can be made until the keyboard is cleared.

The machine is  $13\frac{1}{2}$  in. wide, 18 in. deep, and 18 in. high with the coin tray in place. The accompanying adding machine is  $10 \times 15 \times 7$  in. An alternative version of the machine dispenses coins into a tray where a customer can pick them up.

Price is about £250; with adding machine, about £350.

Vacuumatic Ltd, 129 Kingsway, London WC2.



Vacuumatic Counting Machine with Add-lister attachment

### New Office

#### Mechanized Cheque Writing

ARECENT addition to the well-known *Protectograph* range, the T.260 cheque-writer, is lower that any of its predecessors. But, like others in this priced series, it impresses the cheque as it prints, thus making alteration by chemical or mechanical means virtually impossible.



Protectagraph T.260 Cheque-writer

Using sliders, the operator sets in the required amount, checking this by a clear indicator in front of the machine. An adjustable slide tray positions the cheque correctly; a sliding prefix block prints a £ sign and, as an extra precaution, a company name or trademark can be inserted close against the first figure of the amount, thus leaving no space for fraudulent insertion of an extra figure.

There are no rollers to be cleaned or re-inked: the machine uses a ribbon impregnated with indelible ink. Provision has been made for easy conversion to decimals. It is finished in beige and cordovan blue.

Price, with dust cover, £,95.

Halsby & Co Ltd, 52 Dean St, Shaftesbury Ave, London W1.

#### Addressing Equipment on Show

THE obvious functions of addressing machines is evidenced by their title. Less apparent are the many applications where addressing plays little or no part for which this versatile equipment can be used. In fact, almost any office or factory task which requires the repeated reproduction, in random order, of selected

### quipment

permutations of fixed data might well be handled by

addressing equipment.

At new London showrooms opened by Adrema-Bradma, visitors have an opportunity of seeing such tasks as invoicing, payroll, production of work tickets, hospital records and rating demands demonstrated on addressing equipment. One of the company's most recent high-speed models handles sixty or one hundred metal plates per minute (as decided by the operator) and includes a light signalling system which automatically indicates, for instance, the loading of various machine tools, presses and so forth when job cards are being printed, thus materially assisting in production control.

Demonstrations will also be given on the folding and inserting machines marketed by this organization and on a new range of five spirit duplicators.

Adrema Ltd, Telford Way, London W3.

#### **By-product Addressing**

USERS of tabulators, typewriters and teleprinters are provided with a means of making address masters as a by-product of invoicing or other operations by the Sten-C-Labl method. Stencil blanks, lightly attached to sets of forms, are cut as the address panel is typed or printed. These are then used in conjunction with a hand printer, loaded with a squeeze-fed bottle of weatherproof ink, to print on to labels, tags or cartons.

Lamson Paragon Ltd, Paragon Works, London E16.

#### **High-speed Collator**

COLLATING, jogging, stapling, counting and offset stacking are carried out successively and automatically on the *Fairchild* collator. The machine, which has just been introduced to the British market, can handle up to 3,000 eight-part sets per hour, the distributors say.

Paper may vary in size from  $5\frac{1}{2} \times 8$  in. to  $8\frac{1}{2} \times 14$  in. and may be in any weight from 13 to 110 lb. Should a sheet fail to feed from any station or a double feed occur, the machine is stopped by a signal from automatic detectors. The stapler may be switched out by hand if not needed.

Price is £1,350.

Block & Anderson Ltd, Banda House, Cambridge Grove, London W6.

#### Punched-tape Filing System

NEAT, compact and well-indexed system for filing lengths of perforated paper tape – always a difficult problem – is provided by the *Daprotape* method. This houses the tapes in ingeniously-designed but low priced cassettes, made of card and equipped with an index tab. The cassettes are stored in trays which, in turn, are housed in cabinets of varying capacity.

The cassettes are supplied flat for easy storage and are assembled in a moment by folding and tucking. Each takes from a few feet of tape to 50, 120 or 170 feet, according to capacity. This range is available for two widths – \(\frac{3}{4}\) in. and 1 in. For storage, the tape is wound into a roll and the roll squeezed gently in the hand to assume an oval shape. It is then inserted through one end of the rectangular, open-ended cassette. Cassettes are filed, one behind the other from front to back of the tray, the tab of each standing up to form a visible index. Tray capacity is twenty or forty cassettes of \(\frac{3}{4}\) in. tape, thirty-two or sixteen of 1 in. Cabinet capacities vary from 880 to 2,880 cassettes of the narrower tape, rather fewer of the wider. Those of counter height have laminated plastic working tops.

Cassette prices range from 3s 3d to 4s 3d per dozen. Cabinets are from £33 14s 11d to £80 14s 1d (all prices including purchase tax.)

Punched Card Accessories Ltd, 58 Victoria Street, London SWI.

#### **Executive Furniture**

LLUSTRATED here is one of the items in the new Magnus range of executive furniture. This L-shaped unit is made in elm with a white melamine top and black stove-enamelled framework. The top of the desk is 5 ft 9 in. by 2 ft 9 in. Like others in the series, it can be supplied also in teak or African walnut, with a plain top and a timber, bright chrome or silver bronze plated frame.

The storage cabinet on the left has lockable sliding doors and two adjustable shelves, one of which may be replaced by lateral filing rails. The desk pedestal contains three 6 in. drawers and a pull-out accessory slide with perspex divisions and two pin trays. The chair shown with it, produced by the same maker, is upholstered in black hide.



Magnus L-shaped Unit

Other items include a double pedestal desk with a slide strong enough to support a dictating machine; a bookcase-cum-storage unit with glass or wooden sliding doors; two medium-sized tables; fibreglass chairs; and an equipment trolley with swivel castors.

Price of the complete L-shaped unit is about £115, including purchase tax.

Conran & Co Ltd, 5 Hanway Place, London W1.

## New Legislation

All new Acts will be noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective.

#### **STATUTES** 10 & 11 Eliz, 2

#### Chapter 24: National Assistance Act, 1948 (Amendment) Act, 1962

An Act to amend section 31 of the National Assistance Act, 1948, and to empower local authorities to provide meals and recreation for old people; and for purposes connected therewith.

Price 3d net.

May 24th, 1962.

#### Chapter 25: Police Federations Act, 1962

An Act to amend the law relating to the constitution and proceedings of the Police Federations.

Price 5d net.

May 24th, 1962.

#### Chapter 26: Animals (Cruel Poisons) Act, 1962

An Act to prohibit the killing of animals by cruel poisons; and for purposes connected therewith. July 3rd, 1962. Price 3d net.

#### Chapter 27: Recorded Delivery Service Act, 1962

An Act to authorize the sending by the recorded delivery service of certain documents and other things required or authorized to be sent by registered post; and for purposes connected therewith.

Price 5d net.

July 3rd, 1962.

#### Chapter 28: Housing (Scotland) Act, 1962

An Act to make further arrangements for the giving of financial assistance for the provision and improvement of housing accommodation in Scotland and for building experiments in connection therewith; to amend as respects Scotland the law relating to the permitted increase of rent in respect of improvements, to houses unfit for human habitation, and to the obligations of lessors and lessees as to repairs under short leases of houses; to make further provision for default of Scottish local authorities in their duties as to the fixing of rents; to amend in minor particulars the Housing (Scotland) Act, 1950; to enable the Secretary of State to acquire shares of authorized societies within the meaning of the Housing Act, 1914, and to dispose of moneys accruing to him from those and other shares; and for purposes connected with any of those matters. Price 3s net. July 3rd, 1962.

#### Chapter 29: Agricultural and Forestry Associations Act, 1962

An Act to provide that certain agreements made by or between members of associations of persons occupying land used for agriculture or forestry shall be exempted from the application of Part I of the Restrictive Trade Practices Act, 1956.

Price 5d net.

July 3rd, 1962.

#### Chapter 30: Northern Ireland Act, 1962

An Act to amend with regard to certain matters, and empower Her Majesty in Council to amend with regard to others, the law concerning the administration of justice in Northern Ireland; to enlarge the legislative power of the Parliament of Northern Ireland; to amend other law applicable to Northern Ireland; to lay down a rule for interpreting, in the application to Northern Ireland of Acts of Parliament, certain expressions commonly used therein; and to repeal obsolete, unnecessary or spent enactments applying to Northern Ireland.

Price 4s net.

July 3rd, 1962.

#### Chapter 31: Sea Fish Industry Act, 1962

An Act to make further provision, by way of financial assistance and otherwise, with respect to the white fish and herring industries, including provision relating to the White Fish Authority and the Herring Industry Board; to make further provision for the regulation of fishing for, and the landing and commercial use of, sea fish, and with respect to shellfish; to enable the charges leviable at certain harbours to be varied, and to facilitate borrowing for certain harbour and marine work undertakings; and for purposes connected with the matters aforesaid.

Price 3s net.

July 3rd, 1962.

#### Chapter 32: Marriage (Wales and Monmouthshire) Act, 1962

An Act to extend certain provisions of the Marriage Act, 1949, to Wales and Monmouthshire.

Price 3d net.

July 3rd, 1962.

#### Chapter 33: Health Visiting and Social Work (Training) Act, 1962

An Act to establish two Councils with functions relating to the training of health visitors and training in social work; to extend the powers of the Minister of Health, the Secretary of State and local authorities with respect to research into matters of social welfare; and for purposes connected therewith.

Price Is net.

July 3rd, 1962.

### Notes and Notices

#### PROFESSIONAL NOTICES

Messrs Harold Everett, Wreford & Co, Chartered Accountants, of Harford House, 103 Gt Portland Street, London WI, announce that Mr S. L. Kingdon, A.C.A., A.A.C.A., who has been a senior member of their staff for some time, has now been admitted into partnership as from July 1st, 1962. They announce also the retirement from the practice of Mr I. B. GLICKMAN, 3.C.A. The name of the firm will remain unchanged.

Messrs Greenslade & Co, Chartered Accountants, of Dashwood House, 69 Old Broad Street, London EC2, announce with regret the death of Mr W. H. W. Greenslade, f.c.a., who had remained a consultant to the firm after his retirement from the position of senior partner.

Messrs J. & J. M. Payne, Chartered Accountants, of 324–325 High Holborn, London WCr, announce hat Mr Joseph Payne, f.c.a., has retired from the practice in order to take up a commercial appointment. I'he practice will be carried on under the same style and from the same address as hitherto by Mr J. M. Payne, A.C.A.

#### **Appointments**

Mr R. H. Dent, F.C.A., deputy chairman and managing director of the Cape Asbestos Co Ltd, has been appointed chairman of the company. He will remain is managing director.

Mr H. V. Hughes, F.C.A., has been appointed secretary of Meredith & Drew Ltd and subsidiaries.

Mr Barry R. K. Hunton, A.C.A., assistant secretary of W. & R. Jacob & Co (Liverpool) Ltd, since January 1961, has been appointed secretary of the company.

Mr F. Nash, F.C.A., has been appointed a director of John White Footwear Holdings Ltd.

Mr D. S. Stevens, F.C.A., has been appointed an additional director of First Garden City Ltd.

#### **OBITUARY**

#### Mr Richard Buxton Morrish, T.D., M.A., F.C.A.

The death of Mr Richard Buxton Morrish, T.D., M.A., c.C.A., on July 15th at the early age of 52 has come as a great shock to his many friends. Although he had been ll for several months the seriousness of his condition was not generally realized.

Born in 1910, the eldest son of Arthur Gabriel Morrish, C.V.O., F.C.A., he was educated at Clifton College and Pembroke College, Cambridge. He was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1935 and became a partner in his father's firm, Morrish, Grant & Co, of London, in 1936. The firm later became Morrish, Walters & Co, in which he was a partner at the time of his death. He was also a partner in Annan, Impey, Morrish & Co.

He was commissioned in the Territorial Army in

1934 in the Royal Artillery and in the Second World War saw active service in France, where he was wounded, and in Italy and Germany, being in command of his Regiment from 1943 until 1945. He was mentioned in dispatches and awarded the Territorial Decoration. In 1945 he was a member of the Military Court which tried officials from Belsen Concentration Camp.

His civic career developed in the 1950s. He was elected to the Common Council of the City of London for Candlewick Ward in 1956. A liveryman of the Mercers Company, he was House Warden from 1961-62 and could have expected, had he lived, to become Master in 1963.

Mr Morrish was a Governor of Clifton College and of St Paul's School; he was also chairman of the Trustees of the Ranyard Memorial Home, joint treasurer of the Old Cliftonian Society, a member of the Union and Gresham Clubs and a director of several companies.

One of his keenest interests was amateur dramatics and he appeared with the Old Stagers for several years in their Canterbury productions.

Mr Morrish, who is survived by his widow, the three daughters of his first marriage and by his stepson, will be widely missed for his warm companionship and solid judgment.

#### B.O.A.C.'s FINANCIAL COMPTROLLER RESIGNS

Mr Kenneth W. Bevan, F.C.A., financial comptroller of British Overseas Airways Corporation, is resigning his appointment on October 1st next. Mr Bevan joined the corporation eleven years ago as chief accountant and was later appointed financial comptroller.

In a statement last week, the chairman of B.O.A.C., Sir Matthew Slattery, paid tribute to Mr Bevan's professional skill and integrity and to the high quality of the work which he had performed for the corporation. 'Mr Bevan,' he said, 'has for many years been under a considerable burden of work and strain and he has indicated that he is no longer able to continue under that strain. The corporation has therefore reluctantly felt obliged to accept his resignation from October 1st next.'

Mr Derek H. Glover, M.B.E., F.C.A., has been appointed to succeed Mr Bevan as financial comptroller with effect from October 1st.

#### **BOARD OF TRADE**

#### Accountants' Division: Change of Address

The Accountants' Division of the Board of Trade, hitherto located at Lacon House, Theobald's Road, London WCI, will (from today) be at the new address of 35 Old Bailey, London EC4. Telephone: City 5757. A general notice about the removal of Board of Trade departments from Lacon House appeared in our issue of July 7th.

### THE INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

#### **New List of Members**

The Membership and Constitution, 1962, of The Institute of Municipal Treasurers and Accountants, now published, shows that membership at January 1st, 1962, numbered 5,548 together with 280 honorary members and fellows. Comparative figures for January 1960 are 5,203 and 313 respectively. The total membership comprises 884 fellows, 2,551 associates, and 2,113 students.

Topographical and alphabetical lists of members and students are contained in the publication, together with an index to authorities the Institute's Charter and

bye-laws.

#### WIDER SHARE OWNERSHIP

The proceedings of the Wider Share Ownership Conference held in London last March and reported in The Accountant of March 24th and 31st have now been published in booklet form. The conference was called to receive and discuss a report prepared by Dr M. Abrams for the Wider Share Ownership Committee, on 'Savings and attitudes to share ownership', and the booklet contains a summary of the survey. Also included is the address of the chairman, Mr Maurice Macmillan, M.P., together with the addresses of the guest speakers, The Rt Hon. Henry Brooke, M.P., at that time Chief Secretary to the Treasury; Lord Ritchie of Dundee, Chairman of the London Stock Exchange, and Mr S. P. Chambers, C.B., C.I.E., Chairman of Imperial Chemical Industries Ltd. The booklet is illustrated with a number of photographs of personalities who attended the conference and other information includes short extracts from the speeches in the open discussion.

Also reproduced is the constitution of the Wider Share Ownership Council, as it is now called. The principal objects of the Council, it is stated, are to enlighten the community on investment matters; to promote wider share ownership, and to co-operate with

other groups working to the same ends.

#### EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES First President elected

Sir Mark Turner, of Kleinwort, Benson Ltd, the London merchant bankers, has been elected the first president of the recently formed European Federation of Financial Analysts Societies. Mr P. W. Freeman, also of London, has been elected vice-president of the Federation.

As investment becomes more and more the business of insurance companies, banks, pension funds and investment trusts, so the place of the investment analyst increases in importance. The Federation has therefore been set up by the existing national societies of investment analysts in Europe – those of Belgium,

Britain, France, Germany, Holland and Switzerlandto give coherence and momentum to their individual efforts. It has among its aims the raising of the standards of financial analysis and the improvement of the quality and quantity of information given to investors.

The technical side of the Federation's work will be carried on through study groups, national and international, examining such questions as the standardization of financial terms in the different European countries and the critical examination of various techniques of security analysis.

The Federation's office is in Paris, at 28 rue St Marc. It can also be contacted through the Society of Investment Analysts, whose office is at 21 Godliman Street,

London EC4.

#### NATIONAL INSURANCE REPORT Jubilee Report

In 1912 about thirteen million workpeople became contributors under the first National Insurance Act. The cost of benefits then was at the annual rate of about £8½ million. At the end of last year they were costing about £1,150 million a year. These are some of the interesting facts and figures given in the Ministry of Pensions and National Insurance annual report for 1961 published last week¹.

This jubilee report states that at the end of December the Ministry was paying about 700,000 war pensions, and family allowances to over three and a half million families containing about nine and a half million children. The number of retirement pensions had risen to nearly five and three-quarter million and there were over 590,000 widows' benefits and guardians' allowances and over 180,000 industrial disablement pensions.

Claims for benefit and allowances during 1961 totalled some fifteen million; these included ning million for sickness benefit, two and a half million for unemployment benefit, 950,000 for maternity benefits, 345,000 for death grant and 830,000 for injury benefit.

The overall cost of benefits being paid at the end of the year was at the rate of over £1,385 million a year. The main items included over £100 million a year for war pensions and nearly £135 million for family allowances from Exchequer funds and about £1,150 million for benefits from the National Insurance and Industrial Injuries Funds, including £800 million for retirement pensions. Contributions were at the rate of nearly £1,000 million a year and Exchequer support was at the rate of over £200 million a year.

An article - 'National Insurance Jubilee' - appeared in *The Accountant* of December 16th last.

#### GOLF

In a match played on July 19th, at the Bromborough Golf Club, the Liverpool Chartered Accountant Students' Association beat the senior society by five matches to nil.

<sup>1</sup> Cmnd. 1764. H.M.S.O. Price 10s.

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# THE INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

#### RESULTS OF EXAMINATIONS HELD IN MAY 1962

Places and prizes will be awarded on the combined results of the May 1962 and November 1962 examinations

#### FINAL EXAMINATION

#### PART A

\*Adams, K., Derbyshire C.C. Allen, D. G., Kidderminster R.D.C. Allport, B. G., Glamorgan C.C. Angus, B., Yorkshire C.C. (North Riding) Armstrong, B. A., Durham C.C. Arnold, J. S., Islington B. Avery, D. P., Norfolk C.C. Barden, D. E., Rochester B. \*Belbin K., Southend on Sea C.B. Benoy, R. F., Ministry of Housing and Local Government Local Government
Berry, B., Brighouse B.
Bestwick, I. S., Nottingham C.B.
Blackburn, J. M., Huddersfield C.B.
Boulden, G. J., Middlesex C.C.
Bradley, E. E., Durham C.C.
Bradley, M., Swansea C.B.
Bree, A. P., Jersey
Brewster, E. C., Essex C.C.
Brien, R. J., Ministry of Housing and
Local Government
Bridgeman, A. L. Bournemouth C.B. Local Government
Bridgeman, A. J., Bournemouth C.B.
Brock, E. G., Aylesbury B.
Brown, M. J., Leicestershire C.C.
Brown, P. G., Cardiff C.B.
Buckley, E. W., Durham C.C.
Burt, L. J., Reading B. Capps, W. J., Warwickshire C.C. Carter, G. H., Oxfordshire C.C. Codling, G., Ministry of Housing and Local Government \*Crotty, J. J., Westminster B. Crutchley, C. J., Staffordshire C.C. \*Culverhouse, V. J., Bedford B. \*Cummings, G. L., Cheltenham R.D.C. Daniels, M. L., Carmarthen B.
Davies, T., Port Talbot B.
Deeming, M., Coventry C.B.
Douglas, W. G. F., Nottingham C.B.
Dowsett, F. J. B., Kirkby U.D.C.
Doyle, E., Wallingford B.
Dunn, J. L., Wokingham B.
Durrant, J. S., Chingford B. Fell, W. R., Huddersfield C.B. Flinders, J. W., Staffordshire C.C. Garbutt, G. J., Warwickshire C.C. Gibbons, A. R., Fareham U.D.C. Gibson, G., Cheshire C.C. \*Gilbert, R. H., Derbyshire C.C. Gill, E. S., Durham C.C. Goodway, B., Ndola \*Goodyear, W., Birmingham C.B. Glasspool, B. E., Hampshire C.C. Grant, R., Leicestershire C.C. Gregg, M., Morley B.

Gulliver, C. S., Cambridgeshire C.C.

Hall, R. C., Mitcham B.

\*Hancock, C. D., Wiltshire C.C.

\*Hancorn, C. P., Southampton C.B.

Harmer, S. T., Coventry C.B.

Harper, P., Kendal B.

Harris, A. W., Warwickshire C.C.

Hatt, P. O., Carmarthen C.C.

Hayton, G., Salford C.B.

Henderson, A. E., Willesden B.

Herd, G. B., Ellesmere Port B.

\*Hicks, A. M., Wimbledon B.

Hill, K. L., West Bromwich C.B.

Hinds, P. B., Mansfield C.B.

Holland, A. J., Brighton B.

Holroyd, K., Oldham C.B.

Hucklesby, D. J., Luton B.

Hudson, M. J., Cheltenham

Hulse, J., Winsford U.C.D.

\*James, G. A., Cwmbran Development

Corporation

Jeary, K., Durham C.C.

\*Jolley, B., St Helens C.B.

Jones, R., Derby C.B.

Jones, R., Derby C.B.

Jones, R., Perpymouth C.B.

\*Johnson, G. F., Upton upon Severn

R.D.C.

Kendall, A. V., Brandon and Byshottles

U.D.C.

Kinble, A. H., Alton U.D.C.

King, A. T., Ministry of Housing and

Local Government

Lakin, C. F. L., Solihull B.
Lee, T. R., Greenock
Levey, B. W., Ministry of Housing and
Local Government
Little, G. H., Bournemouth C.B.
Long, P. C., Southgate B.
Lowe, J. C., Nottinghamshire C.C.
McAully, J. K., Winchester B.
McNamara, B. C., Swansea C.B.
Manttan, J., Bullingdon R.D.C.
Marshall, A. G., Manchester C.B.
Mayes, R., Staffordshire C.C.
Middleton, G., South Shields C.B.
Morris, M., West Bromwich C.B.
Morris, R. S., Woking U.D.C.
Morris, W. E., Grimsby C.B.
Morrish, B. W. A., Ministry of Housing
and Local Government

\*Newman, P. H., Portsmouth C.B. Newstead, R. A., Chichester B. O'Connor, M., Southampton C.B. Patel, R. M., Mombasa Phillips, A. C., Derby C.B.
Pither, E. G., Windsor R.B.
Poulter, H. W., Hendon B.
Pountney, H. V., Dagenham B.
\*Protheroe, T. J., Haltemprice U.D.C.
Riggs, D. G., Bury C.B.
Riley, T., Nottingham C.B.
Ritchie, J. G., Motherwell and Wishaw
Roberts, T., Cornwall C.C.
Robinson, T., South Shields C.B.
\*Rodgers, K., Chesterfield R.D.C.
Rogers, J. G., Coventry C.B.
Rowe, F., Liverpool C.B.
Saltmarsh, R. J., Hampshire C.C.
Saxon, F., Salford C.B.
Seaton, R. E., Ministry of Housing and
Local Government.
Segal, A., London C.C.
Seymour, P. T., Middlesex C.C.
Sharpe, C. A., Beeston and Stapleford
U.D.C.
Sherlock, A. F., Ealing B.
Simpson, M. C., Leeds C.B.
Smallridge, B. E. N., Essex C.C.
Smith, A. J., Buckinghamshire Water
Board
\*Smith, C., Coventry C.B.
Smith, J. A., Caterham and Warlingham
U.D.C.
Smith, J. S., Leicestershire C.C.
Smith, S. R., Dorchester B.
Standley, B. M., Ministry of Housing and
Local Government
Stevenson, P. A., Nottingham C.B.
Summers, R. H., Wolverhampton C.B.
Sytkes, K. G., Bradford C.B.

Tate, R. J., Yorkshire C.C. (North Riding)
Taylor, D. J., Derby C.B.
Taylor, D. R., Ministry of Housing and
Local Government
Terry, P. E., London C.C.
Thomas, J. A., Urmston U.D.C.
Thornton, E. J. P., Coventry C.B.
Turnbull, M. J., Luton B.

Taplin, R. H., Swindon B.

Underwood, R. J., Cwmbran Development Corporation

Walton, F. H., Coventry C.B. Wells, C. J., Berkshire C.C. Williams, K. H., Leicestershire C.C. Wilson, J. C., Skipton R.D.C. \*Wyld, F. J., Shoreditch B.

Young, D. A., Southend on Sea C.B.

\*Passed Part B (or Part I) at a previous examination

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#### THE ACCOUNTANT

#### PART B

- \*Adams, D. H., Twickenham B. \*Allan, J. R., Harrogate B. Atkin, A., Glanford Brigg R.D.C.
- \*Baldwin, S., Luton B.
  Bannister, D. K., Derbyshire C.C.
  Bedford, J. H., Staffordshire C.C.
  \*Bentley, F., Ministry of Housing and
  Local Government

\*Berriman, J. K., Yorkshire C.C. (East

\*Berriman, J. K., Torkshire C.C. (East Riding)

\*Bicknell, R. A., Richmond B.

\*Bidwell, B. S., Fareham U.D.C.

\*Birch, R. T. G., Staffordshire C.C.

\*Bishop, J., Lanarkshire

\*Bloore, W. F., Nottinghamshire C.C.

\*Boar, C. A., Basildon U.D.C.

\*Booth, M. A., East Midlands Electricity

Roard (Illeston and N. Derhysbire Sub

- Board (Ilkeston and N. Derbyshire Sub-Area)
- \*Area)
  \*Bradley, J., Banbury B.
  \*Bridger, J. V., Swansea, C.B.
  \*Bristow, H. E., Reigate B.
  \*Bristow, M. J., Hertfordshire C.C.
  \*Brown, A. R., Walton and Weybridge U.D.C.
  \*Brown, C. E. Lile of Fly C.C.
- Butler, G. E., Isle of Ely C.C.

Clark, J., Southampton C.B.

Clarke, I. J., Cannock U.D.C.

Clarke, R. I., Nottingham C.B.
Coates, W. A., Staffordshire C.C.

Curtis, A. F., Plymouth C.B.

Davis, B. C., Eastbourne B. \*Dibble, B. E., Walsall C. B. Dunster, S. G., Bolton C.B.

Edwards, J. H., Huyton with Roby U.D.C

\*Ellis, S., Sussex (East) C.C. \*Etheridge, D. A., Northampton C.B. \*Evans, R. F., Buckinghamshire C.C.

\*Ferguson, D. R., Glasgow
\*Firkins, L. J., Dudley C.B.
Fonseca, O. T. F., Ministry of Local
Government and Lands, Kenya
\*Foster, H., Manchester C.B.
\*Francis, J. R., Colchester B.
\*Frost, B. W., Lewisham B.
\*Furmage, B. M., Dorset C.C.

\*Gaillard, P. G., Chertsey U.D.C. \*Gidman, P. G., Portsmouth C.B. \*Gould, A. F., Bedworth U.D.C. \*Graham, D., Swindon B.

\*Halfpenny, D., Norwich C.B. \*Hammonds, E. E. H., West Bromwich

C.B.

\*Harrison, W. F. D., Cardiff C.B. Hassett, S. J., Cheshire C.C. \*Hawkes, A. C. H., Gloucestershire C.C. \*Hewit, J. V., Caterham and Warlington U.D.C.

\*Hodgson, P., Durham C.B.
\*Holt, K., Ministry of Housing and
Local Government

Howell, J. R., London C.C.

Hudson, J. R., Islington B.

Humphries, R. J., Paddington B.
Hurn, D. E., Wiltshire C.C.

\*Ibbotson, F. P. R., Bromley B. \*Izzard, R., Hertfordshire C.C.

\*Jackson, L. A., Aireborough U.D.C. \*Jones, R., Woking U.D.C. \*Jones, W. G., Hambledon R.D.C.

\*Keating, R., Ministry of Housing and Local Government

\*Kirkman, B. F., Coventry C.B.

\*Lambert, J. M., Exmouth U.D.C.
\*Latter, L. W., London C.C.
\*Lear, R. W. A., Leatherhead U.D.C.
\*Lebeter, C. W., Derbyshire C.C.
Leeson, R. V., Coventry C.B.
\*Longley, D. M., Nottingham C.B.

Malik, J., Middlesbrough C.B.
\*Marriott, J. M., Morley B.
\*Martin, K. E., Bristol C.B.
\*McLachlan, J., Ministry of Housing and

Local Government

\*Meekosha, F. S., Nottinghamshire C.C. Meigh, D. T., Derbyshire C.C. \*Meredith, S. V., Ndola \*Mills, E. R., West Bridgford U.D.C.

\*Newstead, J., Tottenham B. \*Newton, J. D., Blackburn C.B. \*Nicholls, B. J., Beckenham B.

Passed Part A at a previous examination

\*Norman, R. W., Cheshunt U.D.C.

O'Brien, R. F., Cheshire C.C. Ogden, D. L., Coventry C.B.

\*Palk, N. T., Wimbledon B.
Parr, S. J., West Ham C.B.
Paul, J. H., Whitley Bay B.
\*Payne, H. J., Llantrisant and Llantwit
Fardre R.D.C.
\*Portman, G. A., Barnsley C.B.
\*Price, D. A. G., Southampton C.B.

\*Rainbird, R. N., Hackney B. \*Rainbird, R. N., Hackney B.

\*Raiph, P. M., Epson and Ewell B.

Reilly, A. J., Birkenhead C.B.

Richmond, G. W., Chesterfield B.

\*Rippington, T., Swindon and District
H.M.C.

\*Roberts, A. J., Cornwall C.C. \*Robinson, R. T., Coventry C.B. \*Rodgers, J. M., Wanstead and Woodford

\*Royce, J. C., Leeds C.B.

\*Seager, E. V., J., Southampton C.B.
\*Setchfield, K. J. W., Glamorgan C.C.
\*Shaw, G., Norwich C.B.
\*Smith, D. R., Ministry of Housing and
Local Government
\*Serial J. Lieblic (Venterer)

\*Smith, J., Lincolnshire (Kesteven)
\*Stone, R. I., Totnes B.
\*Streeter, F. E. A., Basildon U.D.C.
\*Sumpter, A. H., London C.C.
\*Synes, J., South Eastern Electricity
Board

\*Talbot, P. A., Kerrier R.D.C.
\*Thomas, N., Winchester B.
\*Thompson, J. T., Staines U.D.C.
\*Thompson, K., Smethwick C.B.
\*Toogood, J. E., Cardiff C.B.
\*Tunstall, F. T., Doncaster R.D.C.

Veysey, R. F., Cardiff C.B.

\*Ward, W., Hewyood B.
\*Waters, W. C., Crosby B.
\*Watson, K. H., Leicestershire C.C.
\*Webb, J. E., Newbury R.D.C.
\*White, T. C. J. A., Warwickshire C.C.
Whiteway, A. A., Sussex (West) C.C.
Wood, D. A., Coventry C.B.

#### Summary of Results

			Intermediate		Final Part A		Final Part B		Total		
	-		No.	per cent	No.	per cent	No.	per cent	No.	per cent	
Passed			 166	35	148	40	122	45	436	39	
Failed	• •	••	 314	65	225	60	149	<b>55</b> .	688	61	
Total			 480		373		271		1,124		

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# ACCOUNTANT



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Compiled by Kenneth Trickett,

F.C.A.

### NED + NIC = ?

LUS ca change, plus c'est la même chose. It would, to put it no more strongly, be unkind to apply the foregoing quip to the Government's economic policy which, in its new guise and with its new exponents, has now been presented by The Prime Minister. There are two important differences in the situation from that which prevailed some three weeks ago. First, Mr Maudling and not Mr Selwyn Lloyd is at the Treasury. Whether his policy will be so very different from his predecessor's remains to be seen; but he will at least have the advantage of certain spade work undertaken by Mr Lloyd. More important, it is certain that Mr Maudling will handle what is ultimately a public relations job more professionally than Mr Lloyd ever succeeded in doing.

The second difference is Mr Macmillan's proposal for a National Incomes Council, as yet no more than an expression of intent, with the TUC spokesman's death-wish already upon it. Yet NIC offers the possibility that it may partially alleviate, if not completely cure, the running sore of the British economy in the 1950s, i.e. the failure to match pay increases with the rate of growth in the national product. Mr Macmillan was not guilty of exaggeration when he declared that his incomes policy was not to be regarded as 'one of the methods of temporary restriction' but 'as an essential foundation . . . of a policy of expansion'.

Before examining the potential efficacy of Mr MACMILLAN's new prescription for Britain's economic ills, it is as well to be clear what the Government is trying to do. At the present time, and for the past two years, production has been and remains static. The blame for this situation has been laid at the door of Mr LLOYD's restrictive financial policy. Consumer demand has been cut back and manufacturers' order books are slimmer than in the past; hence industrialists in their turn have deferred the installation of new plant. Overall, the result has been a slackening off in the tempo of work and a reduction in the level of weekly earnings which discourages consumption, first, in a small sector of the economy, and then gradually over a much wider area of industry, so that there is concealed unemployment, high unit costs of production and little incentive. All observers are agreed on this simple analysis, and all are agreed that some stimulus is desirable which will raise both consumer spending and industrial investment and thereby accelerate the pace of economic development.

'If we could be sure', declared Mr MacMILLAN to the House of Commons, 'that expansion would not result in our running into

the problems of inflation, we should have dealt with one of the major economic problems of the age.' Unfortunately we cannot be sure. Hence, Mr Lloyd has pursued unrelentingly his restrictive credit policy because, with the given shortage of labour and its distribution, any increase in economic activity would generate wage and salary increases considerably in excess of the increase in the national product. Prices and imports would rise, confidence in sterling would certainly be weakened and ultimately the Chancellor would have to chose between devaluing sterling, running down the gold reserve or borrowing heavily overseas to support sterling until new remedial measures could be taken.

On the other hand, many critics argue that the present slack in the economy is such that the increase in the national product following a stimulus would fully match the demands for higher pay. While there is undoubtedly some truth in this contention, there are many observers of the economic scene - including, it would seem, the Treasury itself - who are sceptical. Yet, if it brings in its train a new balance of payments crisis, then the Government's future prospects of re-election will decline still further. Nevertheless. it would be a fundamental error to view this as a problem of the present administration. It is a problem for the nation and it is no comfort to realize that as yet none of the political parties has suggested how it should be met.

Successful planning, in this case for full employment and external stability, whether it be carried out by a dictatorship or by a Government agency such as N.E.D.C., cannot be achieved unless the rate of annual increases in incomes are regulated in accordance with the growth of the national product. Spokesmen for the trade unions have in their diverse ways and at varying times made it clear that the present system of wage fixing is sacrosanct. Some measure of Government intervention might be accepted by the unions if the Government's economic plan were to be based upon a comprehensive, and thus impracticable, policy of economic direction by the Government. The Government's intervention in the field of wage arbitration, not least in respect of employees in the public services, has clearly demonstrated the weakness of direct intervention in a limited sphere of the economy. This type of

pay pause must be rejected, not so much because it upsets the 'sacred cows' of wage negotiation procedures, which in any case have not worked particularly well in a fully employed economy, but primarily because it was so blatantly unfair.

If, therefore, planning directives are out of the question, the only policy open to the Government is persuasion, i.e. the need to explain to the public the basic fairness of a particular incomes policy which in the present 'mixed' economy must entail Government intervention. Herein lies the significance of the newly conceived NIC While NED should be able to measure the growth in national production and indicate the areas in the economy most seriously short of labour (if it will be permitted to point out the industries which need slimming, it will be even more effective), then the members of NIC should be able to offer applicants for pay awards an increase which bears some relationship to economic realities. Whether a disappointed union membership will choose to strike rather than accept an unpalatable award will be seen in due course. If, however, the issues in major claims were publicized, then public irritation such as arose over the electricians' award, which breached the pay pause, or public. sympathy as in the case of the nurses, might be channelled into forming an effective nation-wide pressure group. According to The Times 'in so far as there is no power within the nation able or willing to control their excesses, both trade unions and employers have become technically irresponsible'. An informed public opinion led by NIC could in time become the 'power' to which The Times refers.

Progress towards an economic policy offering full employment with external stability has been regrettably slow in the United Kingdom; it is slight consolation to learn that the West German trade unions are proving equally reluctant to restrain their current wage claims. The real failure of the last Treasury administration was its inability to explain to a public, which has been nurtured for the past twenty years on inflationary pay awards, why that policy must now halt. This is the real measure of Mr Maudling's task for, properly thought out and directed with determination, NIC could help greatly to solving Britain's basic problem.

### Caveat Emptor

Consumer Protection (Cmnd 1871), produced after three years' deliberation and study of the problem under the chairmanship of Mr Joseph Molony, Q.C., can hardly be said to recommend sweeping changes. It proposes that the existing law relating to false trade descriptions should be tightened up and consolidated; that the Board of Trade be empowered to require compulsory and more informative labelling of goods; that the consumer's rights conferred upon him by the Sale of Goods Act (of which he is often ignorant) be more widely enforced.

The most striking recommendation involves the creation of a Consumer Council with statutory powers to regulate labelling and standards. Useful though the proposed functions of this body may be, the main burden of protecting the British shopper will remain on the shoulders of the local authorities. Unfortunately, not all such bodies are as enthusiastic in enforcing the laws aimed at protecting the consumer as the Molony Committee could wish. To encourage the laggards, the number of prosecutions initiated annually by each local authority should be published.

For the wider public, and for the accountancy profession too, main interest in the report centres on the Committee's recommendations on hire-purchase. The Committee is on the whole satisfied with the current state of the law, a conclusion which will hardly meet with the approval of many vocal critics of recent hire-purchase developments. Its recommendations are thus concerned primarily with tidying up, rather than reforming the law; for example, minor modifications to the basic form of hire-purchase contract, of which the Committee comments that it is difficult to safeguard those who do not read what they sign. However, the Committee seems to recognize that there are people who need protection against high pressure salesmanship, and it therefore recommends a 'cooling-off' period of seventy-two hours after receipt of the agreement, within which period the hirer may cancel the agreement by giving notice of his intention to the finance company. The Committee suggests that this provision should be incorporated in the hirepurchase contract in suitable sized print, but recognizing that unscrupulous salesmen may seek to circumvent this provision it recommends that any failure to comply with that requirement should be treated as a criminal offence.

The Committee notes the problem arising from the position of most third parties who may acquire possession of goods subject to a hire-purchase agreement, although the title to those goods has not yet vested in the 'vendor'. The Committee makes no specific recommendation on this important topic since it is being currently studied by an inter-departmental committee. It does, however, make important recommendations on the hirer's rights in respect of goods exceeding the value of £300 which are not covered by the protective provisions of the 1938 Hire Purchase Act. In the case of such goods, upon his failure to meet the terms of his contract, the hirer may be deprived of the goods even if only a nominal sum remains outstanding. The report analyses the consequences of increasing this limit to £1,000, to cover in particular the large volume of car business, but concludes not only that the existing limit should be abolished, but that to fix any arbitrary limit would produce various inequities between different classes of hirer. The Committee recognizes that such a recommendation, if adopted in the future, would be most unpopular with the finance companies, which are already concerned with the prospect of heavy losses that would ensue, as well as the difficulty of getting cases heard promptly before the Courts, quite apart from the views of magistrates sympathetic to the hirer. The Committee rejects this concern on the grounds that the adoption of their recommendation would compel the finance companies to show 'a deeper regard than has previously been displayed for the credit-worthiness of potential hirers'.

There may well be disappointment over the Committee's recommendations which, as the report clearly states, are 'not aimed to relieve him [the consumer] of the duty to look after himself. No system of protection can avert all the consequences of folly or eliminate every possibility of hardship. . . . The consumer's first safeguard must be an alert and questioning attitude'.

### Short-term Gains — IV

#### COMPUTING THE GAINS

Twould have been possible to impose Case VII tax on the excess of the sale price over the cost price, without regard to any incidental expenses. After all, Schedule E tax is imposed in much the same way, with little more than a token provision for the deduction of expenses. However, the Government clearly intended the deduction of expenses in computing the income to be charged; witness paragraph 44 of the White Paper<sup>1</sup>. Section 13 (1) of the Finance Act, 1962<sup>2</sup> sets out the general rule that the gain to a person shall be computed

'in the like manner as it would fall to be computed for the purposes of Case I... if the acquisition and disposal (together with anything done by him to or in relation to the asset in connection with the acquisition and disposal or with a view to the disposal) had been an adventure in the nature of trade'.

It will be recalled that 'trade' for income tax purposes includes an adventure in the nature of trade, which implies a trade of comparatively short duration. This wholesale importation of Case I rules may well be a convenient device to save the draftsman trouble but it can only do so at some cost in trouble to those who have to pay the tax or administer it. Case I liability and computation are governed by the taxpayer's intention: there can be no trade unless he has an intention to make a profit; there can be no deductible expense, in general, unless he incurs it wholly and exclusively for the purposes of the trade. Now Case VII liability was meant to be independent of intention; it owes its existence largely to the doctrine established by case law to the effect that a sale at a profit attracts no tax unless, broadly speaking, the purchase was made with that profit in view.

Section 13 (1) treats as part of the notional adventure in the nature of trade (which we will call 'the adventure') anything done by the taxpayer:

- (a) to the asset; or
- (b) in relation to the asset,

provided that it was done either:

- (i) in connection with both the acquisition and disposal; or
- (ii) with a view to the disposal.

Read literally, section 13 (1) excludes anything done in relation to the acquisition alone. However, it is clear from the general tenor of the tax, and also from the express words of section 13 (3), that the consideration for the acquisition is deductible. At the same time, paragraph 2 (1) of the Ninth Schedule provides that the consideration given for the acquisition of a contractual right is to be treated as an expense of acquiring or disposing the underlying asset. From this, no doubt, we are expected to infer that such expense was incurred wholly and exclusively for the purposes of the adventure, notwithstanding that at the time it was incurred the person incurring it had no intention of reselling.

Nothing is said about capital expenditure incurred in improving the asset at a time when resale was not contemplated, but no doubt this would be allowed; provided, of course, that it was incurred by the taxpayer himself. Expenditure by some other person which added to the value of the asset would not rank for deduction, if the provisions are to be interpreted strictly.

In the case of an acquisition and disposal of land, paragraph 17 (3) of the Ninth Schedule makes special provision about maintenance expenditure, designed to prevent double allowance. The latter part of the sub-paragraph provides that maintenance expenditure 'incurred by the person chargeable' which falls to be taken into account in a Case VII computation is not to be taken into account under section 101, or section 176 (1) (g) of the Income Tax Act, 1952. These sections deal with maintenance relief for Schedule A and for excess rents. Maintenance relief already given can be withdrawn by additional assessment, 'or otherwise'. In view of the three-year limit in the case of land, any additional assessment is unlikely to be out of time. The sub-paragraph makes it clear that the relief need not have been given to the person actually incurring the expenditure. It follows that a person who has had maintenance relief may have an unpleasant surprise on

<sup>&</sup>lt;sup>1</sup> Cmnd 1710.

<sup>&</sup>lt;sup>2</sup> The Act has passed the final stages.

account of some other person making a chargeable disposal.

The earlier part of paragraph 17 (3) prohibits a deduction for maintenance expenditure 'incurred by any person' –

- (a) in computing the gain accruing to that person from the acquisition and disposal either:
  - (i) for the purposes of the profits tax (if any) chargeable on the disposal; or
  - (ii) for the purposes of paragraph 7 (3) (dealing with assets constituting trading stock);
- (b) in computing for any purpose of the Ninth Schedule the amount which would secure that on that person's disposal of the land neither a gain nor a loss accrued to him.

This last is a reference forward to paragraph 18 (1), which we dealt with in an earlier article, and which is concerned with the notional computation where one person's acquisition is treated as being another's. Profits tax and paragraph 7 (3) will be examined later.

As originally drafted, paragraph 17 (3) simply prohibited, in a Case VII computation on the acquisition and disposal of land, any deduction for any expenditure which *could* be taken into account under section 101 of the 1952 Act. However, it was pointed out that this could cause hardship to the person assessed under Case VII, where for instance he had not or could not claim full relief for this expenditure.

Paragraph 17 (4) deals with management expenses of the kind for which investment companies, insurance companies, and unit trusts can claim relief under section 425 of the Income Tax Act, 1952, as extended. No deduction for such expenditure is to be made if the section, as so extended, applies to the person chargeable and he could claim management expenses relief on it.

The credit side of the account is hardly more clear. It will be recalled that section 10 (1) excludes from charge 'gains which accrue as profits of a trade, profession, vocation, office or employment' but does not exclude interest, dividends, annual payments, etc. Section 13 (1) provides that 'no dividend or interest in respect of which tax has been borne by deduction or otherwise shall be brought into the computation as a receipt'. The words 'has been borne' must be read in a broad sense in relation to interest subject to direct taxation; since the tax is not usually borne until long after receipt of the

interest. Equally, 'receipt' must be read in a broad sense, for actual receipt of income is not a necessity in a Case I computation. Section 13 (3) speaks of 'consideration for any acquisition or disposal or . . . any receipts or expenditure' and here again 'receipts' must be read as not requiring actual receipt. If a receipt is credited at the time the account is made up, then it would seem that there can be no legal claim to relief if the debt proves afterwards to be irrecoverable. Paragraph 17 (5) of the Ninth Schedule provides for a notional 'receipt', and incidentally recognizes, by its wording, the distinction between something a person receives and something which he is entitled to receive. If the person chargeable 'receives or is entitled to claim' any capital allowance (excluding investment allowances) with reference to expenditure relating to the asset, the allowance is to be treated as a trading receipt of the expenditure - less any balancing charge. If the adventure does not relate to the whole of the person's interest in the asset, the necessary apportionment has to be made.

Section 13 (2) makes it clear that Case I rules about basis periods have no application. The gain accruing from a disposal is computed in one sum as from the 'relevant acquisition'; a phrase defined in section 13 (8) (a) as follows:

'relevant acquisition' means, in relation to any disposal of an asset, an acquisition which with that disposal amounts to an acquisition and disposal within the meaning of this Chapter, except that it does not include an acquisition by reference to which tax is not chargeable, nor an acquisition from which no interest included in the disposal derives'.

The last word of this definition leads us to another 'definition', in section 13 (8) (b):

'an interest included in a disposal shall be treated as deriving from an acquisition if without that acquisition the whole interest could not have been so included, but so that the part of that interest which does and the part which does not derive from relevant acquisitions shall be determined as if any interest of temporary duration subsisting at the time of the first relevant acquisition (other than an interest of such a duration as to expire before the time of the disposal) had been of the same duration at the time of the disposal'.

A gain accrues at the time of the disposal, or at the time of the acquisition if later (section 10 (3) (b)).

(To be continued.)

### Meeting the Mandarins

NYONE who wishes to spend Bank Holiday week-end making the vicarious acquaintance of the comparatively small band of influential people who apparently 'run' Great Britain may do so for the modest sum of 35s. The expert guide on this diverting excursion is a London journalist, Mr Anthony Sampson, and his medium is a long and consistently readable book of 650 pages<sup>1</sup>. In it he takes the reader to all the traditional seats of power - the palace, the Houses of Parliament, Downing Street, the ministries, the clubs, the boardrooms of City bankers and West End financiers and even further afield to the senior common rooms of Oxford and Cambridge colleges and to the still stately homes of England. He describes the distinguished occupants of these and other hallowed places deftly, often supplying sartorial detail to indicate character and background ('Everything about him seems to droop - his moustache, his eyes, his mouth, his floppy cardigan' and '... an adventurous stockbroker in Old Etonian braces' are but two examples) and briskly outlines their importance in the scheme of higher things.

The hierarchy he divides into three not altogether clearly defined sections. The first of these, the review of which occupies rather more than half the book, covers royalty, the peerage (on dukes he is delightful), politicians, the Civil Service, the Church, the law, the armed forces and the Press. Part two deals with the City as represented by the Stock Exchange, the Bank of England, other banks and financial houses and insurance and property interests. Part three is concerned, rather haphazardly, with big business. In this section appears a short chapter on accountants.

Mr Sampson, on the whole, is fair to the profession. He calls it the priesthood of industry and attributes much of its present power to the ability of its members to master, among other things, the complexities of taxation. He deplores, however, its (to him) cautious and generally pessimistic outlook and believes that the whole

history of the profession, beginning as it did with bankruptcies and thriving in times of business depression, has filled accountants with 'a vivid sense of disaster'. He would like to see them much more imaginative and adaptable to change.

On his own admission, Mr Sampson is neither a social historian nor a student of constitutional procedures but an inquiring journalist, passionately interested in people, and indeed the influence of his activities as a columnist in a Sunday newspaper is at times only too apparent. The characteristic detracts from the essential seriousness of his arguments and sometimes makes them merely amusing instead of arresting. It also gives his narrative in parts the transient quality of a newsreel than which nothing dates more quickly. A book of this kind, to be topical, must be produced speedily and for that reason the author elected not to include in his survey 'the broad fields of art, medicine, religion or provincial life and culture which all go to make up the character of Britain'. If he had done so, and if he had omitted much of the trivial gossip which clutters up his text, a much better balanced picture might have resulted.

These limitations of presentation, however, do not obscure the success of Mr Sampson's exercise which is to indicate who the real rulers of Britain are and to ascertain if the system which produces them could be bettered. At the end of his investigations, he comes to the firm conclusion that the present leaders, still predominantly recruited from the aristocracy and upper middle classes with benefits of public school and university backgrounds, have failed to keep pace with the eruptions of social and scientific change. The machinery for producing mandarins is Victorian and obsolete. What is needed, in Mr Sampson's opinion, is a generation of clear-thinking managers capable of accepting the challenges offered by a modern civilization of which nationalized industries, new universities and monolithic financial corporations are already, for better or worse, as fixed a feature of the scene as the gaunt skyscrapers now dominating - symbolically? - the sedate Government buildings around Whitehall.

<sup>&</sup>lt;sup>1</sup> Anatomy of Britain. Hodder & Stoughton, London. Price 35s net.

Capital Profits or Losses —

# ACCOUNTANT

### a Further Look

by R. S. WALDRON, F.C.A.

THE Jenkins Committee has sought to define more specifically perhaps than has been attempted previously, the exact basis on which pre-acquisition profits are to be calculated, and the reasons why certain profits are to be regarded as 'capital'. In its report, the Committee states (paragraph 350):

(a) A net realized capital profit may be treated as a distributable profit only if the directors are satisfied that the net aggregate value of the assets remaining after the proposed distribution of that profit will not be less than the book value, so that the share capital and reserves remaining after the distribution will be fully represented by the remaining assets;

(b) a capital surplus arising on the revaluation of unrealized fixed assets should not be directly or indirectly available for distribution in divi-

dend.

#### **Textbook Opinion**

These statements do not in fact seek to alter the existing law so much as to clarify its varying interpretations, and in this connection, Mr M. J. Greener, B.A., A.C.A., may be complimented for his careful and studious analysis of the legal concepts of this topic in his article on the distribution of capital profits published in *The Accountant* of March 3rd, last. Of particular value were his opening remarks reminding us of the textbook opinion within the profession, which he correctly summarized as follows:

'A surplus arising within a company from a revaluation of fixed assets could not be distributed as a profit unless:

- (a) the articles of the company permitted;
- (b) the surplus remained after the proper revaluation of all assets; and
- (c) the surplus was realized.

One of the problems of such basic rules is that of precisely defining terms like 'fixed assets', 'surplus' and 'proper revaluation'. Besides these points of detail, however, it is rewarding to look closely at the basis of the second of these three 'basic rules'.

Textbook opinion appears to be set forth quite

clearly in A Summary of Auditing Case Law (eighth edition) by Miles Taylor, which states:

'From the two decisions (i.e. Lubbock v. British Bank of South America Ltd [1892] and Foster v. The New Trinidad Lake Asphalte Co Ltd [1900]) it appears that three conditions must be fulfilled in order that a capital profit may be distributed in dividend, viz:

- (i) the memorandum or articles of association must permit (or not prohibit) the distribution of capital profits;
- (ii) the profit must be realized in cash; and
- (iii) the surplus proposed to be distributed must exist after a proper reconsideration of the whole balance sheet position and revaluation of the assets (and perhaps the liabilities too).'

Of the two cases, New Trinidad Lake Asphalte is the more interesting. In the judgment it was stated:

'It is clear that an appreciation in total value of (original) capital assets, if duly realized by sale or getting in of some portion of such assets may in a proper case be treated as available for purposes of dividend.... I do not think a realized accretion to the *estimated* value of one item of the capital assets can be deemed to be profit divisible amongst the shareholders without reference to the result of the whole accounts fairly taken.'

If, therefore, one takes the trouble to read the whole of the case in detail, it becomes apparent that summaries, by simplifying the conclusions, have increased the strictness of the ruling of the judgment. It is easy to understand why this has occurred.

#### What has to be Revalued?

It would seem fair that, taking this rule at its face value, the average accountant would argue that if a surplus on one fixed asset is to be distributed then (on the basis that subscribed capital must, at any rate nominally, be kept intact) the remaining fixed assets must be proved not to show a loss viewed collectively. This, however, is not the meaning of the judgment; nor does it fit in with the facts of the case. The real point in

this case, which has led to the assumption of a principle, is that a number of fixed assets were purchased as a block and in order to prove that the purchase price had been properly apportioned when one only of the block was sold, it was necessary to show that the unsold section had a current value of not less than the balance of the purchase price allocated to it. There was never

any suggestion that any of the other fixed assets not connected with the block under consideration should be revalued.

This principle may be illustrated by a simple example. Suppose that a block of ten identical properties is purchased for £10,000. Subsequently one is sold for £1,500. It would be reasonable to assume that each property cost £1,000 but it cannot be proved. Therefore, before the profit on sale of the single property can be accepted as being £500, it is necessary to obtain a bona fide valuation of the remaining houses amounting to not less

than  $f_{0,000}$ .

Who is to make this valuation? Provided that they are demonstrably competent in the field of the particular assets, there seems to be nothing to prevent the directors themselves doing so, but they must do so honestly, believing in their own valuation.

#### Capital Losses on Realization

If we are to be strict in ascertaining capital profits, so we should be strict in measuring losses on realization of fixed assets, and we should apply exactly the same principles to an evaluation of such losses.

It is perhaps unnecessary to point out that 'capital profits' (or 'losses') in this context involves a comparison of original cost with net proceeds of sale of the particular item(s) sold, and that written-down book values are no guide. If a 'capital profit' arises from the sale of an item costing £500, written down in the books to £100 but sold at £525, this profit amounts to £25 and the remaining £400 surplus over book value represents excessive depreciation which, having been charged against revenue profits originally, is therefore of a revenue and not a capital character.

From this brief examination of the problem, it is obvious that adequate records must be maintained of all assets in which the capital of a business is invested with any degree of permanence.

Such records should be adequate in every sense of the word. In the case of buildings and machinery, for example, a proper system would involve the maintenance of a property register and a plant register. In the case of investments (including investments in subsidiary companies), an investments register of ledger is necessary.

#### Meaning of 'Capital Profit'

It is essential that one should be quite clear as to what is meant in this context by the term 'capital profit'. Such a term indicates to readers of this journal, at any rate, 'non-taxable profit' but it should be emphasized that not every surplus on revaluation of a fixed asset is non-taxable, nor is every non-taxable profit necessarily capital in nature.

It has been stated that a capital reserve is by definition one which is not, in the opinion of the directors of a company, free for distribution through the profit and loss account. If, therefore, the test—or main test—of a true surplus is that it must have been realized, then any realized surplus on sale of a fixed asset will presumably constitute a revenue reserve, although for tax reasons it may be prudent to make it the subject of a separate and distinct revenue reserve. Such a surplus (in a 'non-dealing' company) will, under present tax laws, normally be non-taxable.

If such reserves are distributed in cash from a subsidiary company to its parent company, what then is the position? It is submitted that such a distribution becomes a realized surplus, if the present value of the investment in the subsidiary (after such distribution has been made) remains in excess of its book value. If this is the test, it matters not whether the reserves in question were accumulated before or after acquisition of the shares by the parent company.

If the parent company has revalued its investment at some time, the cash realization may result in a reduction in the book value of the investment accompanied by a transfer from capital reserve (being the surplus on revaluation) to revenue reserve (representing the realized

surplus).

It may be worth considering one other aspect of this subject. It has become quite common in recent years to purchase companies for the benefit of their tax losses. When, therefore, such losses are realized in the form of tax savings, the realization is, in fact, the redemption of the purchase price and should be so treated in the accounts, by reducing the revenue profits of the group and writing down the cost of the investment accordingly.

#### THE ACCOUNTING WORLD

### The Profession in Italy

by MARY E. MURPHY, Ph.D.(Lond.), C.P.A.

IN 1164, the city of Milan employed skilled accountants to control the finances of the Commune, the Ducal Palace, and the Cathedral vestry. Accountants were also active in medieval Florence, Genoa and Pisa.

The first association of accountants in the world was established in Italy, the Collegio dei Raxonati, founded in Venice in 1581 – less than a hundred years after publication of Pacioli's treatise on double-entry book-keeping. Membership was first confined to Venetians who had been resident in the city for at lease five years. In 1596, however, 'strangers' were admitted.

The Collegio prospered, and by 1669 it had attained the status of a craft guild, membership of which was obligatory before an accountant could pursue his craft. Candidates had to obtain from a magistrate a declaration of their fitness to enter the profession; they served an apprenticeship of six years in the office of a public accountant. A commission of examiners, consisting of forty-five persons, of whom thirty were accountants, conducted a preliminary examination, and successful candidates then appeared before a panel of the controllers of the Collegio and five 'learned merchants of the city'. If they secured a three-fourths majority of this body, they were granted their certificates.

In 1739, a somewhat similar Collegio was established in Milan. Members who enjoyed legal recognition were required to have a knowledge of Latin, commerce economics, arithmetic, and public affairs. They were elected after serving an apprenticeship of six years. It should be noted, however, that while the Venetian body had a minimum age of admission of 24 years, with the Collegio established under State protection, in Milan, the minimum age was fixed at 25, and accountants formed their own private institution. But in 1748 there was an official ruling to the effect that certain public appointments should be held only by members of the Collegio. At this time the Milan Government established a scale of charges for professional services rendered by accountants. Because of rivalry, the Milan Collegio eventually was abolished.

By a law passed in July 1906, a Collegio dei Ragionieri had to exist in every Italian province, with its headquarters in the capital of the province. Various accountants who held Doctor of Commerce and Doctor of Science degrees formed syndicates, and published lists of practitioners. By a September 1926 measure, these syndicates of doctors, as well as of accountants, were legally acknowledged as part of the National Federation of the Fascist Syndicates of Intellectual Workers. Other laws defined the duties of accountants.

The title of Commercialista applies to an individual

who practises accounting independently. The professional body of the *Commercialista* is the *Collegio dei Ragionieri* (College of Accountants), to enter which an accountant's diploma is required. The course of study covers eight years and the successful passage of a qualifying professional examination which is given once a year at the seat of the competent tribunal before a commission composed of collegiate accountants, presided over by a magistrate.

Then there are the *Dottori Commercialisti* who must have a degree in economics and commerce. This course covers four years of graduate study leading to a doctorate, in addition to the eight years established as prerequisite for university courses, with the degree granted as accountant, industrial expert, chemist, agrarian, and geologist. During the Second World War, qualifying professional examinations were suspended and, at the present time, a degree in commerce or economics, in itself, confers temporary qualification.

From the cultural point of view, the accountant of the College has a degree which is considered less important than that of the *Commercialista* doctor. In so far as the practice of the profession is concerned, however, the law makes no distinction between the two types of *Commercialisti*. This is evident in practice, especially relative to distribution of appointments as trustee in bankruptcy, or technical advisers.

Both accountants of the College and the Commercialisti doctors can, with equal rights, request to be admitted to the Roster of Official Auditors. Also to this roster may be admitted individuals who do not have any degrees, who do not maintain a practice, or who are in another profession, provided that for the number of years established by law, these individuals have held positions as administrator or as trustee in companies or corporations with relatively large capital or who have completed equivalent tasks. An official auditor does not engage in any particular activity except to participate, in cases covered by the law, in the Collegio Sindacale of public companies. A Collegio Sindacale may be compared to a body of auditors who examine the books infrequently, who are responsible to the stockholders, but whose regular attendance at work is not required, as is the case in the United States and Great Britain for internal auditors.

The professional activities of accountants, of the College and the *Commercialisti* doctors include the following:

- Judicial offices (trustees in bankruptcy, referees in bankruptcy, and technical advisers).
- (2) Legal cases which could be entrusted to a notary concerning the constitution, the re-

organization, the dissolution and merger of corporations, and the increase or decrease of capital and bond issues. An Italian notary must have a Doctor of Laws degree, and pass a Governmental examination. He executes the function of the American notary and, in addition, receives appointments which are restricted to lawyers in America. He is an official of the Government and as such receives State compensation as well as fees from clients. The Commercialista may substitute for the notary only in those cases which do not require the services of a Pubblico Ufficiale, literally, public officer, who executes public functions under instructions from the national or local government.

- (3) Tax consultancy.
- (4) Labour relations advice.
- (5) Installation of accounting systems, auditing and other public accounting work; preparation of budgets; and statistical surveys for the purpose of economic control in private and public administration.
- (6) Preparation or inspection of financial statements of banks and other financial institutions, appraisals of companies, and other technical services.
- (7) Advice concerning market research.
- (8) Advice concerning management and business organization.

The activities covered in (3), (4), (7) and (8) above are considered professional specialization. Specialists in (6) and (7) frequently occupy teaching posts in university schools of economics and commerce.

Italian professional accountants assume and execute their work individually. There are some large professional firms, often part of international accounting organizations, which employ some assistants, but the work is invariably executed under the responsibility of the individual practitioner. There are few associated professional firms. The authority in the Italian profession is based not so much on legal recognition but rather on the reputation of the individual practitioner.

In theory, an accountant can organize in any form he wishes and is not limited to the number of assistants he employs. Fees are stipulated by law and they may be related to the amount of assets, the amount of income, the paid-in capital or the significance of the amounts verified. It should be noted that, especially in the South of Italy, the rendering of advice on technical business practices accrues entirely to lawyers.

Financial reporting must conform to appropriate provisions of the civil code. Subsidiaries of American or British companies operating in Italy usually follow the accounting practices of their parent companies and also conform to local regulatory requirements. The civil code requires a general journal, an inventory book, and other records as demanded by the size of the company; the first two must be officially registered with the Government. The balance sheet must conform with provisions of the code, but presentation of an income account is not defined by the code and this account is usually in an abbreviated form.

Since the Second World War, the Italian lira has been devalued. To recognize this decline, the Government permitted revaluation of the cost of property, plant and equipment, investments and inventories in 1948 and 1952. At these dates also, the reserves for depreciation were revalued. Revaluation surplus thus created may be used for an increase in capital, provision for staff pensions, and payments of stock dividends.

Recent legislation has called for greater disclosure of details in annual tax returns. This may lead to additional data being included in company financial statements.

#### EUROPEAN ECONOMIC COMMUNITY

#### Tax Chart

ASYNOPTIC chart providing an inventory of the different taxation systems applying in the countries comprising the European Economic Community has recently been published by UNICE (Union des Industries de la Communauté Européenne). It is available from Editions Sircy, S.A., 22 rue Soufflot, Paris, Veme.

#### **JAMAICA**

#### Society of Chartered Accountants Formed

WE are interested to learn of the formation of The Society of Chartered Accountants in Jamaica. The members of the Council of the new society are as follows:

Mr R. C. Harty, F.C.A. (*President*); Mr C. V. May, F.C.A. (*Vice-President*); Mr J. D. Ashenheim, A.C.A.;

Mr Peter Harty, F.C.A.; Mr W. A. Thwaites, F.C.A. (all of the English Institute); Mr Trevor Brown, C.A. (Canadian Institute); Mr J. W. Miley A.C.A. (Irish Institute); Mr John Whyte, C.A. (Scottish Institute).

#### UNITED STATES

#### National Accounting Association

MR JOHN B. BACHOFER, C.P.A., has been elected President of the National Accounting Association for the year 1962-63. Mr Bachofer, who is vice-president of Nelly Don Inc., of Kansas City, has been a member of the Association since 1938 and is also a member of the American Institute of Certified Public Accountants.

The following have been elected to serve as Vice-Presidents of the Association for the ensuing year: Messrs John L. Marley, Grant U. Meyers, Nicholas Picchione, c.P.A., Henry W. Pirkey, Jun., Stanley A. Pressler, c.P.A., Julius G. Underwood, John E. Vavasour and William W. Wright.

between the net sales realizations, after deducting all rebates, discounts, commissions and royalties relating thereto, and the variable costs of production, distribution and sale. In comparing the profitability of different products and markets the gross margin is a much more meaningful figure than the net trading profit arrived at after deducting fixed costs which must necessarily have been allocated on a more or less arbitrary basis.

- 50. Fixed costs will include staff salaries, depreciation, rent, rates, insurance and the expenses of departments other than those engaged directly on the production, testing, storage and dispatch of products and services. Fixed costs also can be divided into two classes, viz.:
  - (a) Sectional, i.e. those costs which relate to a particular section of the business and which would cease to be incurred if that section were to be discontinued. (A section might either be a product or group of products or a market or group of markets.)
  - (b) General, i.e. those costs which relate to the business as a whole and which will continue to be incurred at substantially the same level whether or not any particular section of the business is discontinued.

It is important that sectional costs should be correctly allocated to the sections to which they relate so that at any time the effect on the total fixed costs of the discontinuance of any particular section can readily be calculated. There is not the same necessity to allocate general costs, but for the purpose of fixing selling prices and for the purpose of profit budgets (to which I shall refer later) general costs should be allocated to the various sections. For this purpose simple and relatively arbitrary allocations will be sufficient.

51. Except for the purpose of price fixing (to which I shall refer later) it is neither necessary nor desirable, in my view, to allocate fixed costs to individual products since any such allocations must be arbitrary and the 'all in' costs so produced are liable to be misunderstood by those for whose guidance they are prepared. I think we should all realize that those who are not accountants have a touching faith in the accuracy and reliability of the accounting and costing statements which we produce. Accordingly when we say that the 'all-in' cost of a certain product is x it is usually assumed by those who are not accountants that this is a statement of absolute and incontrovertible truth. In fact, as any cost accountant will tell you, there is no such thing as an accurate cost of an individual product. The raw materials and packages component of the cost should certainly be accurate but all the other components of the cost will be figures calculated in accordance with a number of costing conventions which will diverge more and more from what could be termed 'accuracy' the further away one gets from the shop floor.

- 52. The special feature about fixed costs which distinguishes them from variable costs is that they cannot normally be reduced quickly. They represent the cost of having an organization of the required type and size available and they are usually virtually fixed for a year or more ahead regardless of turnover. It follows that in times when business is slack and his productive capacity is only partly utilized, it pays a manufacturer to accept additional business at a net price insufficient to cover a fair allocation of fixed costs subject to the following important provisos:
  - (a) that in accepting the business he is not jeopardizing his ability to take more profitable business if and when the demand materializes, and
  - (b) that acceptance of the business will not make it necessary to reduce prices for similar materials to all other customers.

By taking such marginal business he is at least obtaining some contribution towards his fixed costs and reducing the amount of those costs which will need to be covered by the profits from the remainder of his turnover.

- 53. Conversely, when the manufacturer cannot satisfy all his customers' demands owing to shortage of plant, raw materials or labour, he will maximize his profits by concentrating upon the production of those products which give the highest gross margin per unit of whichever item of his human or physical resources is in short supply. For example, if the item in short supply is a key raw material he will assess the gross margin which he is making on all the products which use the scarce material and will concentrate on the sale of those products which give the highest margin per unit of scarce material. In applying this rule it is, of course, important not to obtain the maximum short-term advantage at the expense of customer goodwill. It will usually happen that there are important customers whom the manufacturer must continue to supply regardless of economics.
- 54. Before leaving the subject of costing I should like to say a few words about the use of costs for fixing selling prices, for which purpose costs can be divided into three categories, viz.:
  - (a) raw materials (including packages);
  - (b) other variable costs;
  - (c) fixed costs.
- 55. In valuing raw materials for price-fixing purposes one can either use the latest actual raw materials costs of the products concerned, or their current replacement costs. Which of these two bases should be adopted is a policy matter which should be decided by the board. In conditions of price stability it does not matter which of these two bases is adopted since they will both produce approximately the same answer. In periods of rapid price movements, however, it matters a great deal which basis is adopted and my view is that in such conditions the current replacement costs of raw materials should be used. This means, in effect, that the raw material content

of the product is offered for sale at the current prices of the raw materials concerned and the cost of the product, as calculated for price-fixing purposes, is not affected by the manufacturer's current stock holdings of the product concerned and of the raw materials used in its manufacture.

- 56. Variable costs other than those of raw materials and packages should be calculated at the current standard rates applicable to the processes used in the manufacture of the product concerned. It is arguable whether one should add anything to cover unfavourable variances from standard relating to these processes. To the extent that such variances arise from external factors which have recently taken effect and which have not yet been embodied in the cost standards (e.g. a general increase in wages) it is obviously right to include in the cost calculation an appropriate percentage addition to the variable costs concerned. Where, however, such variances arise from causes within the control of the works manager, they should not, in my view, be included in the cost calculation.
- 57. In the case of fixed costs accurate allocations to products for price-fixing purposes are neither possible nor necessary. Although it is obviously necessary that the sales manager should so organize his selling and price-fixing operations that in total the net sales realizations cover all costs, both variable and fixed, and produce a satisfactory residual net profit, it should, in my view, be left to him to decide how he is to achieve this end. In other words he should have complete freedom to vary the overheads recovery proportion of his selling prices from product to product and from time to time in accordance with the competitive situation. In practice it is a good thing to fix annually in advance for each section an overheads recovery rate calculated by dividing the total budgeted fixed costs of that section for the year (including the appropriate allocation of general costs) by the forecast sales (by volume) of that section for the year. This will give the sales managers responsible for the various sections 'bogey' overheads recovery rates which they will use as a guide in fixing differential overheads recovery rates for the various groups of products or markets for which they are responsible. These rates will be above 'bogey' in the case of products or markets where the manufacturer has the edge on competition and below 'bogey' in the case of products or markets where competition is exceptionally keen.

#### **Budgetary Control**

- 58. Budgetary control is an important factor in any system of financial control and I propose now to summarize the principles of budgetary control and the way in which, in my view, a budgetary control system should be planned and operated.
- 59. The term 'budgetary control' can be defined as the control of income and expenditure through the medium of budgets with which actual performance is

compared. Budgetary control involves four essential operations, i.e.:

- (a) allocation of the operations involved in carrying on the business to the individual managers who are responsible for ensuring that these operations are properly carried out;
- (b) preparation and approval of budgets of performance in regard to these operations.
- (c) comparison of actual with budgeted performance at regular intervals throughout the period covered by the budgets;
- (d) ascertainment of the reasons for significant divergencies between actual and budgeted performance, as a guide to appropriate corrective action.
- 60. A system of budgetary control is like a suit of clothes in that if it is to give the best results it must be carefully tailored to fit the organization which it is to serve. Before planning the system, therefore, it is desirable to examine the organization and its management structure so that any changes which may be desirable can be made before budgetary control is introduced. In particular it is important that throughout the organization management responsibilities are clearly defined and that there is no overlapping.
- 61. Having defined managerial responsibilities they should be embodied in an organization chart or series of charts which show clearly what these responsibilities are, and which should be given a wide circulation. The budgetary control system can then be planned in detail. Although the chief accountant will take alarge part in the planning of the system it is most important, in my view, that the system should be planned in collaboration with the managers who are going to be concerned with its operation. To bring the individual managers into the planning stages of a system of budgetary control has the obvious advantage that they know their own needs and the special factors affecting their own departments better than anyone else. But it has the further, and probably greater, advantage that it ensures the maximum degree of co-operation on their part in the operation of the system. The average person will take far more trouble to operate a system in the planning of which he has had a share, however small, than a system which he feels has been imposed upon him without consultation.
- 62. Having laid the foundation of the system the next step is to decide how many separate budgets shall be prepared, who shall prepare them and who shall approve them.
- 63. The number of separate budgets will, of course, depend upon the size of the business and the management structure. Certainly there should be a separate budget for each department or works for which there is a separate manager and there will be cases where it is appropriate to go below manager level.
  - 64. With regard to the preparation of the budgets

### Service to Management - II

by R. D. S. SHRIMPTON, F.C.A.

N the preceding sections of my paper we have considered in very general terms the meaning and purpose of financial control and the way in which it should be applied in a manufacturing company. I now propose to consider in somewhat greater detail certain aspects of financial control which seem to me to call for further comment. These are:

- (a) Capital investment and return on capital.
- (b) Costing.
- (c) Budgetary control.

#### Capital Investment and Return on Capital

- 34. Capital investment can take two forms:
- (a) investment in fixed assets, i.e. buildings, plant, vehicles, furniture, etc.;
- (b) increases in working capital, i.e. stocks plus debtors less short-term creditors.
- 35. First let us consider investment in fixed assets. The fundamental point about fixed assets is that once you have spent the money you cannot recover it. If you put up a new plant which proves subsequently to be surplus to requirements you will be unlikely to be able to dispose of it for more than a very small set. It is of vital importance,

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- estimate of its cost, prepared by the chief engineer, and
- (b) a statement of the estimated return on the new capital involved, prepared by the chief accountant on the basis of (i) the chief engineer's estimate of the cost of the new plant, and (ii) the sales manager's estimates of the quantity and value of the additional sales turnover which the new plant will make possible.
- 38. What is an 'adequate return' is a question which cannot be answered precisely because it depends on such factors as the degree of risk involved and the current yields on gilt-edged securities. With regard to the first point, one would obviously expect a higher percentage return from a plant designed to produce an entirely new product than from an extension to an existing plant which has been in operation for thirty years.
- 39. After board approval, it will be necessary for the chief accountant to provide, during the construction period, regular and detailed information with regard to the progress of expenditure so that the chief engineer can take steps to ensure that the expenditure is kept within the limits of the sanction. If for any reason it seems probable that the amount originally sanctioned will be exceeded, fresh estimates of total cost and of return on capital must be prepared for the approval of the board.
- 40. Finally, when the plant is complete and in full operation the chief accountant will prepare for the board a statement of the actual total cost of the project and of the actual return on the increased capital for an appropriate period. This statement will be the latest estimates. Experience ladge that this comparison will on the natural optimism their sales and of ion costs.

- 42. However, the fact that working capital is difficult to control does not mean that control should not be attempted. It is just as difficult to find fresh money to finance working capital as to finance fixed capital and it is important that all practicable steps should be taken to keep working capital to a minimum consistent with satisfactory service to customers. It so happens that that part of working capital which is subject to the greatest fluctuations relative to sales turnover is also the most susceptible to control, i.e. stocks. In order to control stock levels three things should be done:
  - (a) There should be a definite policy, approved by the board, with regard to the number of weeks of stock to be held. These will vary (i) in accordance with the type of material and (ii) from time to time in accordance with the circumstances. The important thing is that the levels should be fixed and varied by board decision.
  - (b) On the basis of current policies with regard to stock levels the managers who control stocks should be asked to prepare forecasts or budgets at (say) annual intervals of the values of stocks of the various categories of material under their control at stated dates during the coming year.
  - (c) Regular comparisons of actual with budgeted stock figures should be made throughout the year, the responsible managers being asked to explain in general terms the reasons for significant differences.

#### Costing

- 43. An effective costing system is an essential part of any system of financial control. The objects of costing are:
  - (a) To ascertain the costs of individual products, processes and services as a guide to management in deciding production and price policy.
  - (b) To disclose sources of inefficience
  - (c) To facilitate the fixing of ance.

44. At one time considered to of particular

- mental costs, etc. Products are costed on the basis of these standards and differences between actual and standard costs are thrown out as specific 'variances' from standard.
- 46. The advantage which standard costing systems have over the older so-called 'historical' costing systems is that in the case of historical costing systems it is only possible to compare the figures for the current period with the corresponding figures for an earlier period, and there is no indication for either period of what the cost should have been. Under a properly designed standard costing system, on the other hand, the 'variances' which are thrown out for each period will show at a glance by how much the actual cost differs from the standard figure (i.e. what it should have cost), and how much of the total variation from standard is due to variations in usage of raw materials, how much to variations in process times, how much to variations in departmental costs, etc. Further, in the case of each variation the place to look for further information is at once apparent.
- 47. It should be noted that the effectiveness of a standard costing system is entirely dependent upon the validity of the standards. It is important, therefore, that the standards are reviewed frequently and amended where necessary in the light of changed circumstances.
- 48. One of the most important aspects of costing is the distinction between variable and fixed costs. In order that management shall get the maximum benefit from the financial statements which it receives it is important that in all accounts there should 'variable costs', i.e. vary significantly.

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there are, broadly speaking, two possible methods. Either the chief accountant can prepare the budgets and then agree them with the managers concerned (and this, of course, is essential) or the individual managers can prepare their own budgets. I personally feel that it is best to ask each manager to prepare his own budget because he is the person who is, or should be, most competent to say how much his department ought to cost. Further, if the manager prepares his own budget he will have more incentive to keep within it than he would have if the budget had been prepared by someone else. In preparing their budgets the managers will, of course, be entitled - and indeed encouraged - to ask the chief accountant to help them, but they themselves will be entirely responsible for the figures in their budgets.

65. With regard to the approval of the budgets this, in my view, should be a two-stage process. In the first place the budgets should be submitted for approval to the directors to whom the individual managers are responsible. After approval by the various directors the budgets should be passed to the chief accountant who will prepare a summary of the budgets for the final approval of the board. At the board meeting at which the budgets are submitted for approval the individual directors will speak for the departments responsible to them.

66. No manager should be asked to budget or to be responsible for any expenditure which is outside his own control, even if such expenditure is necessary for the proper functioning of his department. Examples of such expenditure are the rates, insurance, heating, lighting and maintenance of office buildings. The best way to deal with such items of expense is to appoint individual managers as 'controllers' of these items for budget purposes. Such managers, although not personally responsible for the expenditure, will be responsible for preparing budgets of the total expenditure, for explaining significant differences between actual and budget, and for giving effect to any economy measures decreed by the board in regard thereto.

67. Every system of budgetary control should contain provision for the revision of budgets during the budget year in cases where changed circumstances make such revisions necessary or desirable. In such cases it will be the manager's responsibility to submit a request for revision, stating the amount and the reasons, to the director to whom he is responsible, after approval by whom it will go to the board for final confirmation.

68. When people talk about budgetary control they are usually referring to the control of expense and all that has been said so far in this section of my paper relates to the control of works and departmental expenses. There is, however, no reason why the principles of budgetary control should not be extended to the control of profits.

69. To do this it is a good thing to divide the sales organization into a number of sections, either on a

product or a market basis (if this has not already been done) and to make a particular sales manager responsible for each section. Each sales manager will be told that he is responsible not merely for sales volume and sales realizations but also for the final net trading profit of his section.

70. The chief accountant will then break down the profit forecast for each year into a number of profit budgets – one for each section. Each of these will be set out in the form of a budget trading account starting with the forecast sales volume and gross realizations and deducting therefrom, in succession, sales rebates, discounts etc., carriage, raw materials and packages costs, other variable costs, sectional fixed costs and general fixed costs, to produce a final net trading profit.

71. The profit budgets will be agreed with the sales managers concerned and a summary of them will be submitted to the board for approval. Thereafter, throughout the budget year, the chief accountant will prepare monthly or quarterly cumulative trading accounts – one for each section – set out in the same way as the profit budgets and comparing the cumulative actual figures with the cumulative budget figures. The individual sales managers will then be responsible for explaining the reasons for significant divergencies between actual and budget and for initiating action to correct unfavourable trends shown by the figures.

72. Experience has shown that a system of budgetary control of profits on these lines has the valuable result that it makes sales managers profit-conscious and not merely volume-conscious, and so tends to increase the profits of the business.

#### Conclusion

73. I have left the most important point to the last. Managerial systems and procedures – financial or otherwise – will not work by themselves. They will only work through people and they will only work effectively if the people who are concerned in their operation want them to. Two things are necessary, therefore, in order that a system of financial control shall work successfully:

- (a) Firstly the proposed system must have the whole-hearted support of the chairman and board of directors of the company and everyone must know this. Departmental and works managers are busy people and they are not likely to give their whole-hearted co-operation in making the system a success if they feel that their directors are disinterested or lukewarm.
- (b) Secondly, it must be impressed upon the managers at all levels who have to operate the system, that the aim of the system is to help them to run their own departments more efficiently, not to provide a stick with which they can be beaten whenever actual falls short of budgeted performance.

The aim of any system of financial control should be

to bring managers at all levels into closer partnership with the directors of the business in their common task which is to ensure that the business shall continue to provide the best possible service to its customers together with adequate rewards to its employees and its shareholders.

74. I hope that this paper will have indicated some of the ways in which the accountant can help management to plan and control its affairs. The matters on which I have touched are, of course, primarily of

interest to accountants in industry, if only because they are working all the time so closely alongside management. It seems to me, however, that there must also be considerable scope for accountants in practice to help their clients in this field, particularly where these clients are small companies or firms who do not employ qualified accountants. The systems of financial control appropriate to such clients will be relatively simple but the principles will be the same, whatever the size of the business.

# Weekly Notes

### NEW MANAGEMENT STRUCTURE AT THE TREASURY

PUBLIC opinion is sensitive to wholesale Government retirements and prescriptions for new policies at the same time. But the changes announced last week-end in the structure of the Treasury had not been unexpected. They are essentially alterations in management structure; it is incidental that they coincide with the retirement of certain senior officials. On the other hand, the structural changes have been used to bring to the top younger men over the heads of certain of their seniors.

It was the Plowden Report on public expenditure which recommended the changes of structure: the changes were planned by Mr Selwyn Lloyd while Chancellor of the Exchequer. The new arrangement will divide the Treasury into three functional groups, in place of two. These will be, first, financial and monetary policy; second, public expenditure and resources; and third, the co-ordination of economic policy. The first group will deal with both home and overseas finance. Under the new arrangement, the professional economists in the Treasury will be integrated with the administrators in the third group.

Mr William Armstrong succeeds Sir Frank Lee as Joint Permanent Secretary (moving up from the position of a third secretary at the age of 47) to take over financial and economic work. Sir Laurence Helsby (aged 54) becomes Joint Permanent Secretary and head of the Civil Service (having been Permanent Secretary at the Ministry of Labour) and Sir Burke Trend (aged 48) becomes secretary of the Cabinet. He was a second secretary at the Treasury.

#### CRISIS ON THE COMMON MARKET

THE long-awaited crisis on the negotiations for this country's entry into the European Common Market has now been reached. The issue which has brought about the impasse is the unwillingness of the

Community, if and when joined by the U.K., to refrain from policies which amount to self-sufficiency in agricultural products. This in turn mainly refers to the protectionist policy of France as regards its wheat farmers.

Both sides have said that they have pronounced their final word on the subject. The negotiators from this country have indicated that they will stand firm on the issue of principle and they are fully aware that the matter has to be faced at this stage because the agreement which might come out of these negotiations has to be defended in the House of Commons and before the Commonwealth Prime Ministers in September.

Negotiations have now been resumed since the middle of the week on this issue but it is becoming increasingly clear that a political decision at the highest level will have to be taken by either side if agreement is to be reached. There have already been murmurs of sympathy from the Belgian side about this country's position. France can hardly be expected to move from its rigid position without some jostling from its following members of the E.C.M. and, therefore, a key position is now held by the German delegation. It is too much to expect that the Belgians and Dutch combined, perhaps with some encouragement from the Italians, would be able to move the French negotiators.

Meanwhile the forces of hostility to Britain entering the E.C.M. have been marshalling their final and vociferous assault on the negotiations. This broadside may at least help to persuade some people on the Continent that this country has not much room left for manoeuvre.

#### CLERICAL PAY REVIEW

STATISTICS just published by The Institute of Office Management show that over both the past ten years and the past two years men clerks did not fare so well as male manual workers in the race for higher remuneration. During the last two years, the wages rates of male manual workers rose by 7.25 per cent and actual earnings by an estimated 10 per cent whereas, during the same period, the salaries of men

<sup>1</sup> Clerical Salaries Analysis 1962. The Institute of Office Management, London. Price 60s.net.

clerks increased by only 5-7 per cent. In that time, the cost of living rose 7.25 per cent. Women clerks fared better; their percentage increase being 7-8 as against a rise in the wages and earnings of female manual workers of 6-7.5 per cent. Over the ten-year period, the effective earnings of clerks (of both sexes) went up by approximately 20 per cent as compared with rises of 31 per cent for male manual workers and 24 per cent for female manual workers. The above analysis relates to the position at March 1st, 1962, when the 'pay pause' was still in operation. Events since that date may have some effect on future statistics as may also Article 119 of the Treaty of Rome which prescribes equal pay for men and women.

Despite these uninspiring findings, the number of clerical workers in the United Kingdom rose in the last decade, it is estimated, from two and one-third million to three million (or from 10 to 12½ per cent of the working population) which would indicate that there is more to a clerical life than merely money. Among other considerations, in this instance, are the attraction of security, the prestige factor and the prospects of ultimate promotion. More prosaically, it should be mentioned that white collar workers are not so well organized as is manual labour and may thus be collectively less aggressive when making pay demands.

#### THE BANK AND THE FRAUDULENT CHEQUES

N Monday the Court of Appeal allowed the appeal by Westminster Bank Ltd from the decision of MacKenna, J., in Orbit Mining & Trading Co Ltd v. Westminster Bank Ltd ([1962] 2 All E.R. 552) in which the learned judge awarded dames against the bank for the conversion of three cheque forms belonging to the company. Although the conversion was admitted, the bank claimed the protection of section 82 of the Bills of Exchange Act, section 17 of the Revenue Act, 1883, and section 4 of the Cheques Act, 1957, on the ground that it had acted in good faith and without negligence. The company admitted the bank's good faith but alleged negligence. MacKenna, J., found negligence but the Court of Appeal has now held that on the facts there was no negligence.

The facts were as follows. A Mr Epstein had been a customer of the bank since 1950. He became, in 1956, the secretary and one of the two directors of the company, the other director being a Mr Wolff. The company opened an account at the Midland Bank with instructions to honour cheques signed by the two directors together. In 1957 and 1958 Mr Wolff went abroad leaving Mr Epstein with cheques on the company's account signed in blank. Mr Epstein presented three of these to the Westminster Bank made payable to 'Cash or Order' and containing his own signature on the front and on the back. The bank collected the money and Mr Epstein used it, wrongfully, for his own purposes.

Lord Justice Sellers said (according to The Financial

Times of July 31st) that the bank had made proper inquiries when Mr Epstein became its customer in 1950; therefore if there was negligence on the bank's part it must have been on the occasions when he lodged the three cheques in question. There were no suspicious circumstances to put the cashier on inquiry and no reason for him to look for an endorsement. The amount of the second cheque, £1,268 18s 6d, was not quite large enough to warrant special inquiry by the cashier, although it was near the border line. This is perhaps why the Court granted leave to the company to appeal to the House of Lords.

#### LARGE REPAYMENT TO THE I.M.F.

THE continuing strength of the pound is reflected in the announcement last week-end that the United Kingdom would repay \$512 million to the International Monetary Fund. This is the final repayment of the \$1,500 million drawn in August and September last year to reinforce the sterling area's reserves. Repayment took place on July 31st.

At the same time, the I.M.F. and this country have made an agreement by which the United Kingdom can draw up to the equivalent of \$1,000 million over the year beginning August 8th, 1962, in currencies held by the Fund. This will establish stand-by facilities to help the pound if they are needed.

This \$1,500 million was the largest drawing facility ever granted by the Fund. Its repayment within a year is considered to be a substantial achievement and emphasizes the value of the Fund's resources as a type of revolving credit.

A repayment of this size is almost certain to be reflected in the figures of Britain's gold and foreign exchange reserves when they are next published. The pound has been strong since the turn of the year and capital funds have moved into London – but hardly on a sufficient scale to prevent a dip in the total. Nevertheless, at about £3,000 million they will be close to the pre-crisis level held in the first half of last year.

#### PILKINGTON REJECTED

TELEVISION, writes Mr David Sawers, in a booklet published by the Institute of Economic Affairs entitled TV: From Monopoly to Competition—and Back? needs 'not the politician, the civil servant or the bureaucrat, but the initiator, the entrepreneur, even the gambler. This short quotation sums up his reaction to the recommendations of the Pilkington Report, the appearance of which has provided the occasion for the publication of this revised and enlarged Hobart Paper which originally appeared last January. In a lengthy analysis of the Pilkington Report he condemns its 'dream of a purified ITA, freed from mutual

<sup>&</sup>lt;sup>1</sup> Hobart Paper No. 15. Price 7s 6d net.

dependence on programme companies' which would merely produce a 'monolithic counterpart to the BBC'. Maintaining his attack, Mr Sawers avers that 'its philosophy emerged clearly as that of paternalists concerned that people should not be exposed to degrading influences...', an attitude which, in his opinion, cannot 'be fitted into the theory of democracy which places power in the hands of the people and accepts their decisions with the accompanying results and risks'.

According to Mr Sawers, the Pilkington Committee's thinking was dominated by two consider-

ations. The first was its belief that so powerful an influence on public opinion should not be left to the profit motive; the second was its failure to realize that the only alternative to commercial control was political. While commercial power can 'be disciplined by competition', there is, asserts the author, as yet no effective means of disciplining political power. Discussing the emphasis laid by the Pilkington Committee on the influence wielded by television on the public, the author comments dryly that 'the hand that controls the TV switch is, after all, the same hand that marks the ballot paper'.

## This is My Life . . .

by An Industrious Accountant

CHAPTER 131

THE trouble started with the old problem of pressure of time. We just can't fit in everything; the days are too short. As a result, reading is neglected, and selective reading is a business necessity.

They were piled on my desk one morning, all the books and magazines I hadn't got round to reading. There was technical stuff, like the articles on the trend of Bradford wool prices, or on the impact of synthetic fibres on the drapery business. I know that accountants are considered to be financial specialists, but we have to keep in touch with trade topics also. There were several chairmen's speeches in *The Financial Times*, and the Chancellor's pronouncement in *The Times*; there were three assorted United States business journals and a Chamber of Commerce report with financial appendices; there was a secretarial monthly magazine. Last, but not least, the last issue of *The Accountant* lay unsullied by human touch. There's a couple of days' work in the bundle.

So I was grumbling mildly to the directors on the subject at our last meeting; their response was unanimous. They, too, found themselves swamped. Our personnel director, in particular, had such masses of Press cuttings about labour disputes and trade union action that he needed a week to catch up with his arrears. He predicted that he'd have to devote part of his holidays to literary research. We all looked profound and gloomy, like the characters in a transatlantic magazine photograph before us. They were a typical bunch of tycoons in a magnificent modern boardroom, with a huge model factory, blue prints, etc. on the gleaming table. One alone looked dynamic and inspiring, but alas, closer investigation revealed

that he owed this good fortune to taking some patent medicine regularly, so he was no help to us.

Then at yesterday's weekly meeting, the managing director explained that a solution to our problem had been suggested and asked for my views. Apparently an official company reader would be appointed, his task being to sift all literature in advance and mark appropriately passages of interest. He would have stick-on lists of names to be ticked, with spaces for page references and circulation time-tables, and would follow up slow readers. The job would obviously provide excellent background management training for aspiring young executives as well as helping their seniors to cope with their work load.

Unwisely, perhaps, I shot the scheme down. 'A soft job for some Parkinson's Law type, in my view,' I said cheerfully. 'He'd probably have a costly staff of technical sub-readers in three mornins. After all, and accountant could pre-digest these specialized accountancy journals, and who's to judge what extraneous material would be of interest to us also? This reading is just an integral part of our jobs, unfortunately.'

Our deputy-chairman contradicted rather aggressively, I thought, on the grounds that any innovation that saved executive time was valuable, and we had a brisk little argument. He felt that the scheme would more than pay for itself; I thought that the sheer monotony of it would soon drive anyone with even the minimum of ability or ambition up the wall.

He got rather red and subsided suddenly. I realized in horror that I'd put my big foot in it again; the scheme was his own suggestion; I should have praised it. He's a man who responds well to flattery, and contrariwise, like the American who visited Martin Chuzzlewit on his sick-bed. 'Our backs is easyris. We must be cracked-up.' Unfortunately, I'd chosen to crack down instead... Anyhow, having an argument with a director is a luxury beyond the range of an accountant unless he's looking for trouble, particularly when the said director is like our deputy-chairman, whose back rises very easily indeed. Judging by his glare across the table, there was more to the story than met my eye. I only learned later that he'd already suggested his son for the post.

Years 1960-62 only reproduced.

#### THE ACCOUNTANT

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## Finance and Commerce

#### Beecham

THE annual report and accounts L of the Beecham Group is one of the leading examples of good company reporting and to it we turn for our reprint this week. The chairman, Mr H. G. Lazell, draws attention to the establishment of three separate divisional management companies for food and drink, for toiletry, and for pharmaceuticals - each with its own management team and concentrating its whole effort on a limited range of products. Experience has shown the great advantages that accrue from such an organization.

Each management team is responsible to the Beecham Group management, the divisional chairman being a group director. Two main features of the new organization are, first, marketing policy is now formulated not by individual operating companies but by divisional managements with direction and control of associated product research work. Secondly, the extension of product specialization which has been a great success in the United Kingdom, progressively to group operations throughout the world, each division being responsible for its own overseas trade. The importance of the overseas business can be seen in the statistical information included in the reprint.

The new organization, which began to operate on January 1st, 1962, does not vitally affect the figures presented, being essentially an internal matter.

#### **Trading Results**

Each division has its own section in the report setting out the constitu-

OUP LTD	
BEECHAM GRC	
-	

		BEECHAM	BEECHAM GROOF LID		
		RESERVES	Capital	Capital reserves	Undistribut profit
1960			Share reder		
шŢ		(i) The Group	ě	_	4
22.35		Balances at 31st March, 1961 Nominal amount of preference shares redeemed	2,393,326	915,419 1,740,134 65,201 —	8/726,03
11.75		Amounts set aside for redemption of preference shares Profit retained	11	11	1,904,97
49.96		Balances at 31st March, 1962	£2.393.326 £98	£980,620 £1,740,134	£10,582,33
21·20 6·83				F5.114.080	
34.51		(ii) The Company	4		:
1.15		Balances at 31st March, 1961 Amount transferred from subsidiary	2,286,842 5	50,017 1,557,605	7,108,42
5:27		Nominal amount of preference shares redeemed Amount set aside for redemption of preference shares	11	55,971	14
15-45		Profit retained			1,714,14
6.04	, ,	Balances at 31st March, 1962	. £2,286,842 £105,9	£105,988 £1,557,605	68,873,06
7.84	······································		6;0	£3,950,435	
	, ,				
		FIXED ASSETS  Depreciation  Cost provisions	Balance n 31st March 1962	Depreciation Cost provisions	Balance ion 31st Mar ns 1961
37.03	_,		70.01		
%! 17:5	<del> </del>	Land and buildings 11,215,187 1,021,008 Plant and equipment 10,146,289 4,766,124 Vehicles 2,449,335 1,166,254	5,380,165	8,545,270 3,998,574 2,145,322 961,108	74 4,562,6 1,184,2
15.7		£23,811,808 £6,954,246	£16,857,562	£20,653,203 £5,774,661	61 £14,878,5
21.3			697,474		<u> </u>
13.0		nt 317,964 I 73,579	3 178,781 6 38,573	33,352 12,094 42,754 24,913	21,2 13 21,2 17,8
2.0		£1,146,189 £231,361		£217,199 £79,254	254 £137,9
,	_				

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STOLENIOL STATE	ALLEN THE POPUL CONTROL CONTRO	Accept Accept		
מוא שעוארוו				
		1962	1961	
	-	ξm	£m	
Total sales	Food, drinks and confectionery Tolletry products Pharmaceutical products	24·28 20·37 13·98	23-01 19-41 13-92	
•		58-63	56-34	
Home sales	Food, drinks and confectionery Toiletry products	23.01 7.86 8.11	21·88 7·43 7·78	
		38-98	37.09	
Overseas sales	Food, drinks and confectionery     Tolletry products     Pharmaceutical products	1-27 12:51 5:87	1-13 6-14 6-14	
		19-65	19-25	
Trading profit	. Home trade Overseas trade	5-60	6.09	
	Total	7.91	8:36	
Depreciation Profit retained		1.54	1.34	<u> </u>
Ordinary snareholders Total capital employed	Ordinary snareholders interest Total capital employed	40-82	39.55	_
Profit margin	Profit margin on sales Home trade	~ <del>7</del> %4	% <u>5</u>	
	Overseas trade Total	3.5	= <del>7</del> 8 8	•
Trading profit	Verage capita	19.7	21.6	
Ordinary divic	orginary dividend (dojusted for capitalisation issues) Ordinary dividend—to ordinary shareholders' Interest	30.0	30·0 13·3	
Ordinary divi	Ordinary dividend, times covered	6:1	2.0	L
***************************************				l

tion of its management committee (with pictures), a brief description of the trade handled, with colour pictures of some of the important products dealt with. Food and drink provides roughly 60 per cent of group sales, the report on that division explains, with drinks – such as Quosh, Tango, Corona and Lucozade – making the major contribution to the division's sales of £24 million.

Mr Lazell, reviewing trading results as a whole, points out that total sales rose 4 per cent though trading profit was 5 per cent down. Home sales were up 5 per cent against 13 per cent in the previous year - 'probably a measure of the effective restraint on demand'. Home profits were 8 per cent down, primarily owing to a sharp increase in operating costs 'particularly the steep rise in the cost of television advertising'. The combined effect of the increase in advertising rates and the television advertising tax raised the cost of an equivalent amount of television advertising by more than one-third.

Previously, rising costs generally have been offset by bigger sales. This time, the Chancellor's measures to restrict demand started to take effect and 'in such circumstances, profit margins are bound to be reduced'. Mass production business, such as soft drinks and confectionery, have heavy fixed costs and are conducted on narrow margins—'the last 10 to 15 per cent of sales is all-important'. Beecham is now waiting to see what lasting effect the purchase tax on soft drinks and confectionery will have.

#### **Patents**

Mr Lazell's review of the pharmaceutical industry is particularly interesting in view of the Minister of Health's recent decision to proceed under a provision of the Patents Act to buy certain patented drugs from abroad at cheaper prices. 'I believe that these drugs come mainly from Italy and some from behind the Iron Curtain', observes Mr Lazell, and he goes on to say that there is no patent protection for drugs in Italy, so there is nothing to stop

	profit	Trading profit is computed after crediting or charging the following:	19/0961   79/1961	ncome from trade investments 6,875 8,750		Fees 7,500 7,500 7,500 7,500 7,500 Management remuneration including pension scheme contributions 157,580 142,470	) /c/	the second of the second contracts of the second Se	The change for the absorption is passed on the prime of the current year. Onlined Ningdom taxation is stated after deducting £225,000 (1960/61–224,000) in respect of the benefit of investment allowances and 700 000 adjustments to page to make years.		મ પ્ર	1,036,816 838,665 2,496,019	3,305,793	axation relief 393,392 164.824 471.905	{	£3,440,617 £3,800,289				
NOTES	1960/61 I. Group trading profit			6,093,321 Income from tra		8,363,755 Fees 414,038 Management	F		16,123 stated after dec		£4,127,005	Profits tax		Overseas taxation Less: Double taxation relief	108,834	1,074,019	939,766 . 2,013,785	2,122,619	1,519,778 484,608 2,004.386	£4,127,005
CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31st March 1962		Sales £58,631,188	Trading profit of the Company and its sub-	Home trade 5,598,421	Overseas trade 2,314,264	Group trading Profit	Profit before taxation 7,512,000 Less: Taxation 3,470,617	Profit after taxation 4,041,383	Less: Attributable to minority interests in subsidiaries 15,231	Profit attributable to Beerham Groun	Limited £4,026,152	aliocated as follows:	District day (for the )	Dayable to the members of Beecham Group Limited 43% Redeemable cumulative bre-	ference shares	Interim dividend paid—16% (1960/61— 1,074,019	Final dividend recommended—14% (1960) 61—14%) 61—14%) 2,013,785	2,121,178	Reachan in the Group Beachan Limited 1,714,144 Subsidiaries 190,830	H. G. LAZELL J. O. RINTOUL Birectors £4,026,152

Italian drug-houses from pirating really important pharmaceutical discoveries and offering them at low prices. But, he asserts, 'the Italian manufacturers would not have had the drugs to offer had it not been for the research laboratories in the drug companies of those countries of the western world which can finance basic research under patent protection'. He sees a need to harmonize drug patent law in all the western world countries and, in particular, a need for speeding up procedure for obtaining patent protection. 'Present delays can be most detrimental to the patentee's interests'.

Mr Lazell tends to agree with Sir Harry Jephcottt, of the Glaxo Group, who considers that sixteen years' patent protection under the present system is too rigid and suggests that drug patents might be endorsed 'Licences of right' after a period of years appropriate to any particular drug. This would give the patentee exclusive statutory protection for a restricted period and thereafter the right to a royalty fixed, in default of agreement, by the Comptroller of Patents for the remainder of the normal life of the patent.

#### **Company Articles Again**

A VERY practical example of the vital need to know the provisions of a company's articles has been provided in the failure of an effort to get two new directors on to the board of Barry & Staines Linoleum Ltd. Notice of the intention to propose the election, said Mr T. J. Cavanagh, the chairman, was invalid under the articles, and he asked the company's solicitor to explain why.

To be valid, the solicitor explained, the notice had to be signed by some member duly qualified to be present and vote at the meeting. It was, in fact, signed by two persons, neither of whom was entitled to vote because, under the articles, no member was entitled to vote at a general meeting in respect of any shares he had acquired by transfer unless the transfer had been left with the company for registration

<ol> <li>Reserves         Details of reserves and movements thereon are set out on p     </li> </ol>	<ol> <li>Minority interests in subsidiaries         The minority interests include £236,374 representing 236,374 5 ference shares of £1 each of Thomas &amp; Evans Limited, redeemat at six months' notice at £25 6d per share.     </li> </ol>	<ol> <li>Future taxation     The amount set aside for future taxation comprises United Kingds     at £2,260,000 and taxation of £25,000 (1961—£230,000) deferred</li> </ol>	<ol> <li>Stocks Stocks are stated at the lower of cost and realisable value.</li> </ol>	<ol> <li>Fixed assets</li> <li>Details of fixed assets and depreciation provisions are set out on page [135]</li> </ol>	<ol> <li>Exchange         For consolidation purposes the current assets and liabilities of overseas subsidiaries are expressed         in sterling at the rates of exchange ruling at 31st March, 1962, and their other assets at the rates         ruling on acquisition.</li> </ol>	<ol> <li>Goodwill Goodwill is stated at the excess of the cost of shares in subsidiaries over the value attributed to their net tangible assets at the dates on which the subsidiaries were acquired.</li> </ol>	<ol> <li>Capital expenditure commitments         At 31st March, 1962, the capital expenditure commitments of the Group amounted to £1,290,000         (1961—£1,600,000).</li> </ol>	1	
f 1961 TAL EMPLOYED	re capital	26,555,790     24,734,284       3,890,612     3,936,583       7,500,000     7,800,000       rests in subsidiaries     274,271     283,501       on     2,515,000     2,800,000	£40,875,673 £39,554,368	VT OF GROUP CAPITAL	7,049,235 6,368,721 6,721,644 9,260,070 2,112,408 11,678,263 18,455,142 2,112,408	63.764 2.376,669 7.362,047 1.748,571		16,857,562 144, 16,857,562 144, 18,010,883 177,	H. G. LAZELL Directors £40,825,673 £39,554,368
	1961 £ 1.			5,114,080 5,114,080 10,582,335 Ital 7,580,415 15,696,415 26,625,790 27,20,030 7,200,000 7,	5,114,080 5,114,080 10,582,335 Is 496,415 Is 47,74,909 Is 47,74,909 Is 47,74,790 Is 47,74,74,790 Is 47,74,770 Is	FITAL  10,592,375  10,592,375  10,592,335  15,696,415  26,048,879  8,726,030  7,500,000	Fig. 1. 1961 1. 1. 1961 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1.	10,959,375	10,959,375

at least three months before. In this case, it had been

left about a month previously.

Mr Cavanagh referred to shareholders having received a letter from 'a certain Mr James' who had had no contact with himself or the board, and was known to them only as a person in whose name a transfer for £100 ordinary stock was lodged for registration 'as recently as May 23rd' – the meeting was on June 28th. The board, said Mr Cavanagh, 'cannot express too strongly its disapproval of this method of intervening in our affairs'.

#### BEECHAM GROUP LTD

#### **Comparative Trading Results**

Year Ended March 31st

TABLE ! - TRADING PROFIT

		1	961	1962					
•		£m	% of total profit	£m	% of total profit	% change in year			
Home trade		6.09	73	5-60	. 71	- 8			
Overseas trade	••	2.27	-27	2.31	29	+ 2			
		8.36	100	7.91	100	5			

#### TABLE II - SALES

	٠	1961	1962				
	£m	% of total sales	£m	% of total sales	% change in year		
Total sales					•		
Food, drinks and confec- tionery	23.01	41	24-28	41	+ 6		
Toiletry products	19.41	34	20.37	35	+ 5		
Pharmaceutical products	13.92	25	13.98	24	7 0		
i nai maceucicai products					U		
	56.34	100	58-63	100	+ 4		
Home sales							
Food, drinks and confec-							
tionery	21.88	39	23.01	39	+ 5		
Toiletry products	7.43	13	7.86	13	+ 6		
Pharmaceutical products	7.78	14	8-11	14	+ 4		
•	37-09	66	38-98	66	+ 5		
Overseas sales		-			<del></del>		
Food, drinks and confec-							
tionery	1.13	2	1.27	2	+12		
Toiletry products Pharmaceutical products	11.98 6.14	21	12.51	22	+ 4		
mai maccarical products			5-87	10	- 4		
	19-25	. 34	19-65	34	+ 2		
				POSTAGE A	T 2		
Overseas sales—		•			•		
territorial analysis							
U.S.A. and Canada	7-30	13	7.93	13	. + 9		
Latin America and Carib- bean area	2.50	. 4			•		
Australasian area	1.52	3	1.76	3	-30		
Far Eastern area	-85	ĭ	1.63	3	+ 7		
South African area	1.44	3	-98	2	+15		
Indian area	.91	2	1.52	3	+ 6		
		~	∙78	1	-14		
Continental Europe and Republic of Ireland	4-11	7	4-49	8	+ 9		
Continental Europe and	4·11	7	4·49 ·56	<b>8</b> I	+ 9 -10		

#### CITY NOTES

THERE are still far too many unknown quantities in the stock-market equation for the arrival at anything like a precise answer to current investment problems. Meanwhile the mistrust of the equity market persists.

City opinion has been unimpressed by the addition of NIC to NED and is still waiting for the Government to take decisions rather than deploy new forces. Obviously the equity market has little chance of prospering when the Prime Minister virtually undertakes to see to it that profits are pinched and dividends restrained as fair exchange for industrial agreement on a wages policy.

To add to the general investment unease has come the first shadow of doubt concerning entry into the Common Market. Against this background the investment money trend remains steadily towards fixed interest stocks and the gilt-edged market is now seen as a hedge against a further equity fall.

It is difficult at this stage to see the makings of an early revival of confidence in the equity market despite the 'confidence factor' implied in the early repayment of the International Monetary Fund loan.

#### RATES AND PRICES

Closing prices, Wednesday, August 1st, 1962

ax Reserve Certificates: interest rate (28:4:62) 289

Tax Reserve Certificates:	interest rate (28.4.62) 22%								
Bank Rate									
Oct. 27, 1960 $5\frac{1}{2}\%$ Dec. 8, 1960       5%         July 26, 1961       7%         Oct. 5, 1961 $6\frac{1}{2}\%$	Nov. 2, 1961 6% Mar. 8, 1962 5½% Mar. 22, 1962 5% April 26, 1962 4½%								
Treasu	ry Bills								
May 25 £3 16s 3·81d% June 1 £3 15s 7·98d% June 8 £3 15s 0·28d% June 15 £3 14s 4·01d% June 22 £3 16s 11·8d%	June 29 July 6 July 13 July 20 July 27 July 28 July 28 July 29 July 27 July 29 July 20								
Money	Rates								
Day to day $2\frac{7}{8} - 3\frac{7}{8}\%$ 7 days $2\frac{3}{8} - 3\frac{7}{8}\%$ Fine Trade Bills $3$ months         4 months $5\frac{1}{2} - 6\%$ 6 months $5\frac{3}{4} - 6\frac{1}{2}\%$	Bank Bills 2 months 4 16-4 16 % 3 months 4 16-4 16 % 4 months 4 16-4 16 % 6 months 4 16-4 16 %								
Foreign E	xchanges								
New York       2-80½         Montreal       3-02½         Amsterdam       10-10¾         Brussels       139-45½         Copenhagen       19-38½	Frankfurt 11:21 d Milan 1740 d Oslo 20:03 d Paris 13:74 d Zürich 12:13 d								
Gilt-e	edged								
Consols 4% Consols 2½% Conversion 5½% 1974 96½ Conversion 5½% 1971 95½ Con'sion 3½% 1969 88½ xd Conversion 3½% Exchequer 5½% 1966 101½ Funding 5½% 82-84 94 Funding 4% 60-90 90 % Funding 3½% 99-04 62½ Funding 3% 66-68 87½	Funding 3% 59-69 87 18 83 2xd Savings 3% 65-75 74 3 2 2 2 2 2 2 2 2 3 18 Treasury 5 % 86-89 86 18 Treasury 3 1 % 77-80 73 18 Treasury 3 1 % 77-80 73 18 Treasury 3 1 % 79-81 72 18 Treasury 3 1 % 79-81 72 18 Victory 4% 94 2 18 Victory 4% 58								

## Reviews

#### Accounting (Rowland and Magee)

Sixth Edition by BRIAN MAGEE, B.COM., F.C.A. (Gee & Co (Publishers) Ltd, London. 20s.)

#### **Principles of Accounts**

by S. W. ROWLAND, LL.B., F.C.A. Seventh edition revised by R. E. SEABORNE, F.C.A. (The Donnington Press, St Albans, and Cassell & Co Ltd, London. 27s 6d.)

#### Intermediate Accounting – A Functional Approach

by C. A. MOYER, PH.D., C.P.A., and R. K. MAUTZ, PH.D., C.P.A. (John Wiley & Sons Ltd, London and New York. 68s.)

These three books present the professional student with a most interesting comparison. In the two English books, in both of which Mr Stanley Rowland had a hand originally, we see good, sensible advice given in a form which is basically traditional. Particular care has been taken in this new edition by Mr Magee to meet the difficulties which many students feel on first encountering 'double-entry'. His arrangement of the sections is a happy one and leads the student to appreciate that methods are but a means to an end, while the appendix sets out typical questions in a section which covers a very thorough test of over sixty pages.

Mr Seaborne's book, primarily designed for a sound correspondence course of tuition, is a thoroughly readable students' book, and in its last three chapters shows itself to be an excellent guide to studies into the published accounts proper. These chapters, which deal respectively with holding companies, published accounts and statutory and specialized accounts, are excellent. The appendices include a questions section and one covering the Recommendations on Accounting Principles of The Institute of Chartered Account-

ants in England and Wales.

It is immediately apparent that the third book originates on the western side of the Atlantic. The précis style of the contents section paves the way for a work which is full of imagination and, unlike most English works, deals with complete transactions from ordering to marketing. The reliance on a bookkeeping system modelled on costing bases is typical of American book-keeping thought. The emphasis is on detail always in the context of building up to the final statement, and on management requirements. The reader is constantly aware of the existence of a business, alive and waiting for information, just around the corner. Possibly this sometimes leads to concentrating less on the basic lessons which British books teach, but sound, realistic and reliable as British textbooks are, there is in this trans-Atlantic work a spark which for some of us would surely have transformed and illuminated our studies if only it had been possessed by more of our own textbooks.

These are all books for thinking students; all excellent of their kind. One may perhaps summarize their qualities best by saying that Mr Magee's book constitutes a fine introduction for any student; that Mr Seaborne's book will carry him well on his way through his studies towards Intermediate level, but that the American work, at that level, would broaden his vision enormously and make more alive the lessons learned from Mr Magee or Mr Seaborne. In this connection, however, it is only fair to observe that within the more modest compass (and price) of the latter books, a more ambitious approach may hardly have been possible.

All these books are well indexed, and all are written in an easily readable manner so that concentration is no difficulty.

#### The Elements of Income Tax and Profits Law

Fifth edition by C. N. BEATTIE, LL.B., and KEITH WEDMORE, M.A., LL.B. (Stevens & Sons Ltd, London. fi 158 net.)

This book is written primarily for law students who hope to take up general practice. It follows, therefore, that certain topics of special interest to the accountant are—to quote the authors—'treated lightly'. Thus calculations and computations are largely absent. Nevertheless, selective reading in this book by accountancy trainees would provide a broader understanding of the subject than an undue concentration on computations in which many students indulge.

## The Law Relating to Bankruptcy, Deeds of Arrangement, Receiverships and Trustees

Seventh edition by O. GRIFFITHS, M.A., LL.B., Barristerat-law. (Textbooks Ltd. Harpenden, Herts. 25s net.) The changes in the law covering these subjects since the sixth edition was published were not very extensive and indeed the new edition differs little from the old one. The references to the Workmen's Compensation Acts have been cut out and there is a reference to the Variation of Trusts Act, 1958, and to the Charities Act, 1960. The book remains a useful conspectus of some important branches of the law.

#### RECENT PUBLICATIONS

HIRE-PURCHASE AND CREDIT SALES – LAW AND PRACTICE, by E. Campbell-Salmon, M.A.(Oxon.). xxxix+392pp. 9×6. 45s net. Sir Isaac Pitman & Sons Ltd, London.

DIRECT STANDARD COSTS FOR DECISION-MAKING AND CONTROL, by Wilmer Wright. xiii+221 pp. 9×6. 54s 6d. McGraw-Hill Publishing Co Ltd, London.

Theory of Money, by W. T. Newlyn. vi+171 pp. 9×6.

THEORY OF MONEY, by W. T. Newlyn. vi+171 pp. 9×6. 18s net (U.K. only). Clarendon Press: Oxford University Press, London.

These books may be obtained from, or through, Gee & Co (Publishers) Limited, The City Library, 151 Strand, London WC2.

## **Taxation Cases**

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

#### Brogan v. Stafford Coal & Iron Co Ltd

In the Court of Appeal - June 20th, 1962

(Before THE MASTER OF THE ROLLS (Lord DENNING), Lord Justice Donovan and Lord Justice Pearson)

Income tax – Trade – Collieries and brickworks – Mutual insurance company – Nationalization of collieries – Acquisition of insurance company's business by National Coal Board – Liquidation of insurance company – Share in liquidation received by appellant company – Whether capital or income receipt – Income Tax Act, 1952, Schedule D, Case I.

The respondent company carried on the trade of operating collieries and brickworks down to January 1947, when its colliery business was acquired by the National Coal Board under the Coal Industry Nationalization Act, 1946. The company continued to carry on its brickworks business, and for tax purposes the company was treated as carrying on one trade.

The North Staffordshire Collieries Mutual Indemnity Ltd (Mutual) was incorporated in 1934 by a number of colliery proprietors for the purposes of insuring its members on the mutual principle and the respondent company was one of the members. Mutual had invested funds producing an income, and the rest of its income consisted of the premiums paid by its members. These premiums were allowable deductions for tax purposes, but Mutual was not taxed on the excess of its receipts over its expenses. After the nationalization of the collieries the business of Mutual was acquired by the National Coal Board. In 1953, Mutual was voluntarily wound up, and there was a sum of about £,700,000 available for distribution among its members. The respondent company received £58,000 and carried this sum to a capital reserve.

It was contended on behalf of the appellant that the £58,000 was a trading receipt of the respondent company. It was contended on behalf of the respondent that it received the £58,000 as a member of Mutual; and that the sum was not a taxable receipt. The Special Commissioners decided in favour of the respondent.

Held (reversing the judgment of Mr Justice Plowman) (Lord Justice Pearson dissenting): the £58,000 was a receipt of the respondent company's trade.

## Spencer, Garside and C.H.W. (Huddersfield) Ltd v. C.I.R.

In the Court of Appeal – June 22nd, 1962 (Before The Master of the Rolls (Lord Denning), Lord Justice Donovan and Lord Justice Pearson)

Surtax – Undistributed income of company – Whether a subsidiary company – Whether distribution made within a reasonable time – Persons to whom income apportionable – Income Tax Act, 1952, sections 245, 250, 256, 260.

The appellant company carried on business as a wool merchant, and had an issued share capital in preference and ordinary shares, all of which was held by four individuals (the Garsides and the Spencers). Towards the end of the accounting period from April 1st, 1956, to March 31st, 1957, that is to say in January 1957, the company transferred all its trading assets to two new companies, and was left with two sums of £25,000 and £279,000 respectively, as its only remaining assets. At the same time the Garsides and the Spencers ceased to hold any shares in the appellant company and received shares in the two new companies; and one of those companies, which held nine-tenths of the appellant company's issued capital, was a company to which section 245 of the Income Tax Act, 1952, did not apply.

Accounts of the company were made up for the period from April 1st, 1956, to January 31st, 1957, and they showed a profit of £32,103. These accounts were adopted by the company in general meeting on February 14th, 1957; and the general meeting also confirmed the payment of a dividend on the redeemable preference shares for the accounting period mentioned, and resolved that no dividend be paid on the ordinary shares for that period. On December 13th, 1957, at an extraordinary general meeting of the appellant company, it was resolved, however, to pay a dividend on the ordinary shares for that period. This dividend was £59,130 8s 8d gross.

On July 7th, 1958, the Special Commissioners made a direction under section 245, and apportioned the actual income of the period in question as to 303/306ths to the Garsides and Spencers, and as to 3/306ths to the two holding companies. The sums so apportioned were £54,282 and £537 respectively.

It was contended on behalf of the appellants that as no interim dividend had been paid, and as the Garsides and the Spencers were not shareholders when the dividends were declared, nothing could be apportioned to them; and that therefore the appellant company was a subsidiary company despite section 256 of the Income Tax Act, 1952. It was contended on behalf of the respondents that the Special Commissioners were entitled to make the apportionments on the Garsides and the Spencers; that therefore, pursuant to section 256, the appellant company was not a subsidiary company during the accounting period in question; and that the dividend declared on December 13th, 1957, was not a distribution made within

a reasonable time, so as to satisfy section 245 of the Act in that respect. The Special Commissioners decided in favour of the respondents.

Held (affirming the judgment of Mr Justice Plowman): the Special Commissioners' decision was correct.

#### E.Y.L. Trading Co Ltd v. C.I.R.

In the Court of Appeal - June 25th, 1962

(Before The Master of the Rolls (Lord Denning), Lord Justice Donovan and Lord Justice Pearson)

Profits tax – Sale of business – Dividend paid out of sale money – Purchase of investments – Determination of accounting period – Whether an investment-holding business – Whether determination of accounting period valid – Whether that period the last chargeable accounting period – Finance Act, 1937, section 20 – Finance Act, 1947, sections 30, 35, 43.

The appellant company was incorporated on September 2nd, 1941, and its issued capital consisted of 8,002 ordinary shares and 1,000 preference shares of £1 each. The company traded as a steel stockist till February 19th, 1955, when it solder business and retained only the bank balance.

On March 17th, 1955, the comparansferred its credit balance, which was then £20 1 175 9d, to the credit of an account at another bank. On March 31st, 1955, new directors were appointed, and the 1,000 preference shares and the 8,000 of the ordinary shares were transferred to another company, and the two remaining ordinary shares were transferred to the other company and to one of the appellant company's directors respectively. On the same day the directors resolved that the company should thenceforth be an investment company. On April 1st, 1955, the directors resolved that a dividend of £27 10s free of tax should be paid on the 1,000 preference shares; and that a dividend of £288,300 free of tax be paid on the ordinary shares. In pursuance of these resolutions the sum of £288,327 10s was paid out of the credit balance of £297,647 7s 5d to the other company. Since June 1955, the company had been treated by the Inland Revenue as an investmentholding company.

A balance sheet, and a trading and profit and loss account, to March 31st, 1955, were prepared, and the profit and loss account was credited with £305 9s 8d of interest accrued since March 17th. The balance sheet showed £9,002 in respect of share capital and £288,645 7s 5d as undistributed profits. The only asset was the bank balance of £297,647 7s 5d. On August 14th, 1959, the Commissioners of Inland Revenue determined that the period of  $10\frac{19}{28}$  months from April 1st, 1954, to February 19th, 1955, should be an accounting period for profits tax purposes. On September 30th, 1959, an assessment to profits tax was issued in the sum of £73,990, for the chargeable accounting period from April 1st, 1954, to February

1st, 1955.

In an appeal to the Special Commissioners against the assessment the following points were argued: (1) whether the company's functions on April 1st, 1955, consisted wholly or partly in the holding of investments or other property within the meaning of section 19 (4) of the Finance Act, 1937; (2) whether the determination of the accounting period from April 1st, 1954, to February 19th, 1955, was valid; (3) assuming that it was valid, whether that period was the last chargeable accounting period of the company within the meaning of section 35 (1) (c) of the Finance Act, 1947. The Special Commissioners decided all these questions in favour of the respondents.

Held (affirming the judgment of Mr Justice Cross): the Special Commissioners' decision was correct.

#### Butter v. Bennett

In the Court of Appeal – June 26th, 1962 (Before The Master of the Rolls (Lord Denning), Lord Justice Donovan and Lord Justice Pearson)

Income tax — Schedule E — Necessary occupation of employer's house — Employer bearing cost of gas, electricity, rates and upkeep of garden — Whether perquisites — Whether the energy of the energy of

The respondent was the manager of a company's paper-mill situated about a mile and a half from the nearest village. His service agreement provided that, if so required by the company, he was to reside in any house provided by the company; and that the company should be responsible for the cost of all coal, coke, gas and electricity reasonably required for heating or lighting the house, for the rent, rates and taxes and the upkeep of the garden. It was not disputed that the respondent was required to live at a particular house provided by the company, nor that it was in fact necessary for the manager to live there for the proper performance of his duties.

The respondent was assessed under Schedule E in sums equivalent to those paid by the company for coal and electricity and the part-time services of a gardener at the house the respondent occupied. It was contended on his behalf that none of those sums were perquisites within paragraph 1 of the Ninth Schedule to the Income Tax Act, 1952; and that they were not benefits in kind within section 161. It was contended on behalf of the appellant that the sums in question, not having been spent by the employer on the house itself, were assessable on the respondent because they represented money's worth; and that, alternatively, the sums were benefits in kind within section 161. The Special Commissioners decided in favour of the respondent.

Held (affirming the judgment of Mr Justice Cross): the sums in question were benefits in kind within section 161 (1); and that there was no ground for apportionment under section 161 (6).

## Notes and Notices

### THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

#### President's Luncheon

The President of The Institute of Chartered Accountants in England and Wales, Mr Percy F. Carpenter, and the Vice-President, Mr Robert P. Winter, gave a luncheon party on July 27th at the Dorchester Hotel. The guests were: Lord Kilmarnock, Lord Ritchie of Dundee, Sir Howard Florey, Sir Edward Playfair, The Hon. Mr Justice Lloyd-Jones, Mr Kenneth Keith, Sir Thomas Robson, Sir William Lawson, Mr D. V. House, Mr E. F. G. Whinney, Mr Alan S. MacIver and Mr C. Evan-Jones.

#### **Taxation and Research Committee**

The 122nd meeting of the Taxation and Research Committee was held at the Institute on Thursday,

July 26th, 1962.

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Present: Mr J. Cartner (in the chair), Messrs F. W. Allaway, G. R. Appleyard, G. L. Aspell, T.D., R. D. R. Bateman, M.B.E., R. P. Brown, W. R. Carter, L. H. Clark, S. M. Duncan, N. Cassleton Elliott, E. S. Foden, C. R. P. Goodwin, A. P. Hughes L. N. Hunter, S. Kitchen, J. W. Margetts, A. Martin, B. A. Maynard, S. A. Middleton, G. P. L. gan-Jones, F. L. Moulding, J. Perfect, T. B. Pritchard, A. H. Proud, D. W. Robertson, H. Robinson, C. Romer-Lee, E. C. Sayers, H. G. Sergeant, B. D. Shaw, H. C. Shaw, W. Shuttleworth and C. C. Taylor (thirty-three members), with Messrs F. C. A. Ledsam, E. R. Nicholson and R. T. Walters, and the Assistant Secretaries to the Committee.

#### Subcommittees

Reports of progress were received from subcommittees concerned with twenty-two matters, and a subcommittee to consider one additional matter was nominated.

#### Future meetings

The 123rd meeting of the committee will be held on Thursday, September 13th, 1962, and the following dates have been provisionally fixed for further meetings in 1962.

Tuesday, October 23rd, 1962. Thursday, December 13th, 1962.

#### APPOINTMENTS

Mr H. F. R. Catherwood, M.A., F.C.A., assistant managing director of British Aluminium Co Ltd, has become managing director.

Mr Bernard Dufton, F.C.A., has been appointed a director of Town Investments Ltd, and of Waddon Investments Ltd.

#### IN PARLIAMENT

#### Decimal Coinage: Committee's Report

Mr Proudfoot asked the Chancellor of the Exchequer if he will now state when the report of the Committee on Decimal Coinage will be published.

Mr DU CANN: It is not yet possible to give a firm date, but present indications are that the report should

be available early next year.

Hansard, July 19th, 1962. Written Answers. Col. 83.

#### Sterling Value

SIR J. BARLOW asked the Chancellor of the Exchequer if, taking the internal purchasing power of the £ sterling in 1914 as 20s, he will give the value in shillings and pence for 1061.

MR BOYD-CARPENTER: 4s 5d, based on changes in the consumer price index and, for the period up to 1938, the Ministry of Labour's cost-of-living index.

Hansard, July 19th, 1962. Written Answers. Col. 83.

## EXPORT CR ITS GUARANTEE DEPARTMENT New Office Opened

The Export—Credits Guarantee Department has opened a new office at Clements House (Wood Street entrance), 14–18 Gresham Street, London EC2, for dealing with business of exporters in the SW, SE, and EC4 areas of London, and in the counties of Hampshire, Surrey, Sussex, and Kent. The telephone number of the new office is Monarch 4581. A telex service is in course of installation: the number will be 24812.

#### NATIONAL INSURANCE

#### Graduated Contributions on Holiday Pay

The Minister of Pensions and National Insurance, has made regulations<sup>1</sup>, relating to the calculation of graduated national insurance contributions on holiday

pay.

These regulations which came into force on July 30th last, make a technical amendment to secure that for this purpose certain payments for holiday weeks can be treated as forming part of an employee's ordinary series of payments even though calculated on a quite different basis, such as where a piece-worker receives holiday pay based on his period of service.

<sup>1</sup> The National Insurance (Assessment of Graduated Contributions) Amendment Regulations, 1962. S.I. 1962 No. 1565, H.M.S.O. Price 3d.

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#### THE ACCOUNTANT

#### August 4th, 1962

#### MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS

At a recent committee meeting of the Manchester Society of Chartered Accountants the following officers were re-elected for the year 1962-63:

Hon. Secretary: Mr T. W. E. Booth, F.C.A., 46 Fountain Street, Manchester 2.

Hon. Treasurer: Mr A. E. Armitage, M.A., F.C.A.

Hon. Librarian: Mr G. W. Murphy, B.A. (COM.), F.C.A.

#### THE MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY

At a recent committee meeting, the following officers were re-elected for the ensuing year:

Hon. Secretary: Mr F. A. Watson, B.A.(COM.), 46 Fountain Street, Manchester 2.

Hon. Treasurer: Mr E. K. Richardson, B.Sc. (ECON.).

Hon, Librarian: Mr R. M. G. Carter, B.A.

#### SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS

#### Students' Residential Courses

The South Eastern Society of Chartered Accountants will hold its thirteenth annual students' residential tuition course in Brighton from September 24th to 28th (Intermediate students) and October 1st to 5th (Final students).

Lectures will be given by tutors from the accountancy correspondence schools, and the programmes include evening buffet meetings and dinners. Arrangements for hotel accommodation can be made if desired and there will be a grant towards the cost of accommodation and travelling expenses. The fee for each course is £4 5s.

All students, whether or not within the area of the South Eastern Society, wishing to attend should apply during August for registration forms and further particulars to Mr T. T. Nash, F.C.A., 33 Lawrence

Road, Hove, Sussex.

#### THE INSTITUTE OF OFFICE MANAGEMENT **One-day Conferences**

A series of one-day conferences to be held in London during the autumn/winter 1962 session by The Institute of Office Management will deal with the following subjects: 'The functional approach to office accommodation' (September 19th); 'Grading and merit rating for the office' (October 3rd); 'The role of the office in the export drive' (October 23rd) and 'The electronic computer - challenge to personnel management' (November 28th), arranged jointly with The Institute of Personnel Management.

Further particulars regarding the conferences are obtainable from the Courses and Conferences Department, The Institute of Office Management,

56 Victoria Street, London SW.

#### SEVENTY-FIVE YEARS AGO

From The Accountant of August 6th, 1887 Extract from a leading article entitled

THE AUDIT OF GOVERNMENT ACCOUNTS

The appointment by the Select Committee on the Army and Navy Estimates of the President of the Institute, Mr Frederick Whinney, to audit and report upon the accounts of the Army Manufacturing Establishments, with power to select another professional accountant to assist him in the work is, for accountants, the most notable, and in its influence and effects, may prove the most important event which has occurred since the Incorporation of the Institute. The Select Committee, of which Lord RANDOLPH CHURCHILL is not merely the Chairman, but the ruling and the guiding spirit, have, in the course of their enquiries, brought to light a state of confusion in the public accounts and laxity in the system of checking and auditing the same, which, with good reason, are believed to cause both waste and extravagance. . . . That Government should undertake no business which can be as well performed by private enterprise is a maxim which in the abstract all people recognise as sound, but which in the confusion and the complication of actual life is apt to pass unrecognised. The fact that the services of chartered accountants have been called in to assist the work and deliberations of a Committee who have attracted great public attention is an indication, we trust, of the fact that public men not only recognise the value of an audit, but recognise that the most efficient auditors are to be found in the ranks of the Institute of Chartered Accountants. The event is auspicious and may have important results.

#### THE PROFESSIONAL CLASSES AID COUNCIL

The forty-first annual report of The Professional Classes Aid Council for the year ended March 31st, 1962, records that total available income for the year amounted to £33,462 compared with £29,242 in the preceding year. Expenditure rose by £4,610 above last year's figure of £29,242 and comprised £25,039 for relief for all the several kinds mentioned in the report, £6,539 for administration costs and £2,274 for other expenses including appeals and publicity.

During the year financial assistance was extended to 527 families - fifty-six more than last year. In addition to general assistance given in cases of distress, grants were made for the education of children and training of students and for additional help in the cases of

elderly and infirm people.

The Council is composed of representatives of nearly all the professional bodies and it works in close

MOTOR — FIRE — CONSEQUENTIAL LOSS

## **MOTOR**

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association with their benevolent funds and other welfare institutions. The Institute of Chartered Accountants in England and Wales is represented on the Council by Mr J. A. Allen, F.C.A., and The Association of Certified and Corporate Accountants by Mr S. C. Jones, F.A.C.C.A. The address of the Council is 10 St Christopher's Place, London W1.

#### PENSIONS IN BRITAIN

Useful information on pensions in Britain is given in a paper under that title prepared by Mr C. W. T.

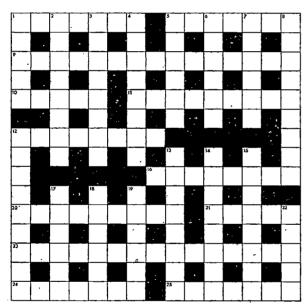
Philpot, joint general manager, Metropolitan Pensions Association Ltd. The paper contains a wealth of material about employee benefit plans of all types (including the State graduated pension scheme) and while it was written specially for United States interest, it is of considerable value to British subsidiaries of American parent companies and even of British offshoots of European concerns. f, s d throughout is expressed in decimal terms.

Copies of the paper are available on application from Mr Philpot at Haymarket House, 1 Oxendon

Street, London SW1.

#### BANK HOLIDAY CROSSWORD

Compiled by Kenneth Trickett, F.C.A.



#### CLUES ACROSS

- 1. Pressure of restricted credit (7).
- Send on for custody (7).
- 9. Members who invoke section 132, Companies Act, 1948, perhaps (15).
- 10. If there is anything calculated to excite suspicion he

- 11. Economist's description of the demand for necessaries is it clean? (9).
- Fifty insects mutilated for producing copies of typed accounts (8).
- 16. Murderer makes a plea that the opponent's facts are irrelevant (8).
- 20. Treasury where money order is hidden (9).
- 21. Arbitrate or arbitrator (5).
- 23. Cover sum in a set-back, and I show an intention to revoke my will (6, 9).
- 24. Vulgar notes a few north-eastern rupees (7).
- 25. A penny is remitted as a protest (7).

#### CLUES DOWN

- 1. Share certificates in an old wallet (5).
- 2. Are such investments never mentioned? (8)
- 3. Information in case even dice are shaken (8).
- Qualified for appointment (8).
- 5. Became insolvent if deal was modified (6).6. Part of the current allowance on property (6).
- Property for Cornish mining leases (6). Librarian's jacket reveals the grave risks insured against (4-5).
- Occupant under ten, worker (9).
- 13. Agent practised piracy, censured (8)
- 14. Makes liable for examination themes (8).
- 15. 'An auditor has nothing to do with the imprudence of making loans with or without security. (In re London and General Bank Ltd) (8).
- 17. What is done in Court (6).
- 18. Guarantee in accordance with Yorkshire river (6).
- 19. Paper supplied by headless country gentlemen (6).
- 22. Dispossess by law as the victims embrace (5).

The solution will be published in next week's issue.

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# ACCOUNTANT

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## Promulgating Parker

SINCE the report of the Parker Committee – appointed in 1958 to consider the education and training of articled clerks – appeared in May of last year, the Council of The Institute of Chartered Accountants in England and Wales has been occupied in studying its three score and ten recommendations. The first results of these deliberations are contained in the report of the August meeting of the Council elsewhere in this issue. The statement deals with exactly half the recommendations and the Council announces that further statements will be issued in due course with regard to others still under consideration.

It must be gratifying for Mr PARKER and his colleagues to have their suggestions accepted with so little qualification. Apart from a few which have been referred to specific committees for further investigation, only one recommendation so far has been rejected. That is (39) which proposes that candidates who would have passed either part of the Final examination as proposed but for failure in one paper should be allowed, at the discretion of the Council, to re-sit that paper alone at a subsequent sitting. Of the many recommendations that have been approved either as they stand or with only minor modifications, one of the most important is that candidates over 18 years of age who have two passes at advanced level out of the total of five required for entrance will be allowed a reduction of one year in the normal five-year term of articles. This will enable scholars to enjoy the undoubted advantages of a sixth form course without feeling that by so doing they will ultimately be a year later in qualifying.

There are three significant changes in the Institute's examinations. The first is that the Institute's own preliminary examination will cease. This, as the Parker Committee pointed out, involves a break with a tradition of nearly eighty years but there is no valid reason why the examinations for the General Certificate of Education should not provide, as indeed they have been doing for many years now, an accurate measure of the level of general education of prospective candidates.

The scope and character of the present Intermediate examination will be substantially altered when the proposals contained in recommendation (37) are implemented. The existing three papers on book-keeping and accounts will be reduced to two, the subjects of executorship and cost accounting will be omitted and taxation will be confined to the treatment of taxation in accounts as already included in the book-keeping and accounts paper. The revised syllabus will then be two papers on book-keeping and accounts, one on auditing and a general paper. The Intermediate examination

in its new form will be held in March and September each year and the date of the first examination will be September 1964. The last Intermediate examination in its present form will be held in May 1965.

The Final examination, as well as having a revised syllabus, will be divided into two parts. Part I will contain one paper each on advanced accounting and taxation and two on English law. Part II will have two on advanced accounting, one each on auditing and taxation and a general paper. Details will not be available until November of this year but if recommendation (33) of the Parker report is followed, one of the

accounting papers will give additional scope for examination in matters relating to management accounting. The first dates for the new examinations will be May 1965 for Part I and November 1965 for Part II. The curtain will fall on the present composite Final examination in November 1966.

The objects of these and other changes outlined in the Council's statement are twofold – to avoid specialization during the period of articles and to provide a test of practical competence. Those responsible for setting this course have done a difficult job well. It is now up to future generations of clerks to make it a demonstrable success.

## Short-term Gains — V

#### **APPORTIONMENTS**

AST week began the examination of section 13 of the Finance Act, 1962, subsection (1) of which says that the gain from an acquisition and disposal is to be computed for Case VII purposes in like manner as for Case I, on the assumption that the acquisition and disposal, and certain matters related to them, all constituted an adventure in the nature of trade – which ex hypothesi they do not<sup>1</sup>.

The section 13 (1) definition of the scope of the adventure is elaborated by section 13 (3). By virtue of paragraphs (a) and (b) of section 13 (3), the adventure does not relate to:

- (i) assets not included in the disposal; or
- (ii) interests not included in the disposal (even though they are interests in assets which are included in the disposal); or
- (iii) assets which are not chargeable assets2; or
- (iv) assets not included in the 'relevant disposition', as defined in last week's article (page 121).

What section 13 (3) (a) (b) actually says is that the adventure 'shall not be treated as relating to' the above matters, which seems to be putting the idea the wrong way round. It would be more apt to say that the adventure shall be treated as not relating to these matters.

Section 13 (3) (c) widens the scope of the adventure. It is to be treated as relating to:

<sup>1</sup> Case VII income is not, for instance, earned income.

<sup>2</sup> See The Accountant of July 14th.
<sup>3</sup> Cmnd. 1710.

- (v) all assets included in the same disposal' whether or not included in the same acquisition;
- (vi) all relevant acquisitions of those assets;
- (vii) the whole interest (included in the disposal) in any assets to which the adventure relates, whether or not the whole interest was included in any relevant acquisition.

However, this is not to operate so as to extend to assets included in the disposal which are not in any case 'chargeable assets' or which were not included in a relevant acquisition, as already defined.

These rules clearly call for apportionments on both the receipts and the expenditure sides. For instance, if a freehold is acquired but the disposal is only of a fifty-year lease, then the consideration for the 'acquisition' of the lease must be arrived at by apportioning the cost of the freehold. Section 13 (3) ends by directing that 'all necessary apportionments' shall be made.

In this connection, the White Paper<sup>3</sup> says (paragraph 46) that 'the accepted practice in the case of a trader' will be followed. These general provisions as to apportionment have to be read in conjunction with paragraph 17 (1) (2) of the Ninth Schedule. If a 'single bargain comprises two or more transactions whereby assets are disposed of, those transactions shall be treated for the purposes of section 13 as a single disposal'. There then follows, in paragraph 17 (1), a provision

which has obviously been lifted bodily from section 326 of the Income Tax Act, 1952. Where separate considerations are agreed, or purport to be agreed (presumably between the parties to the bargain) then they are to be aggregated into one sum and that one sum is to be apportioned between the transactions. This applies even if not all the transactions constitute the disposal of assets.

Paragraph 17 (1), unlike section 326, does not expressly say that the apportionment is to be 'just' whatever that may mean. What then are the principles to be followed in re-apportioning sums which have been already effectively apportioned by the parties? Nothing is said about market value, for instance. That being so, it is difficult to see why, when the separate considerations (or 'purported' considerations) have been aggregated, the aggregate sum should not be apportioned back to the original amounts.

However, that the intention is to remake the bargain for the parties, as far as Case VII is concerned, is clear from the Tenth Schedule of the Finance Act, 1962, to which no reference is made in the Ninth Schedule, in which paragraph 17 appears. The Tenth Schedule provides that section 329 of the Income Tax Act, 1952, is to apply for Case VII purposes in relation to any apportionment (and in relation to any determination of market value) as it applies for purposes of Part X of the Income Tax Act, 1952. Section 329 says that where, under the provisions of Part X, a sum has to be apportioned, and, at the time of the apportionment, it appears to be material as respects the liability to income tax of two or more persons, then 'any question which arises as to the manner in which the sum is to be apportioned' is to be determined by the body of Commissioners there provided for, in like manner as a Schedule D appeal. Section 329 (1) contains a proviso to the effect that all the persons mentioned above have the right to appear, be heard, and make representations in writing.

Paragraph 17 (1), which starts all this complication, is confined in its own terms to a 'single bargain', which itself may well throw up difficulties of construction. Further complications are raised by paragraph 17 (2) which provides for artificially treating different bargains, between different people, as a 'single bargain' for the purpose of paragraph 17 (1). These different bargains have to be 'associated transactions' to be

hit by paragraph 17 (2), but the draftsman has not apparently supplied any definition of this vague phrase. It will be remembered that section 412 of the Income Tax Act, 1952 (dealing with avoidance of tax by transfer of assets so that persons abroad receive the income) uses the phrase 'associated operation' and carefully defines it in section 412 (4). This definition has nevertheless given rise to a good deal of litigation, and has produced from Lord Justice Harman the observation that:

'Death, as we know, is an awfully big adventure, but even the Crown admits that it is not an associated operation.'

Even less then can a passing on a death be an associated transaction.

If a husband and his wife enter into associated transactions, paragraph 17 (1) is to apply as if the transactions were comprised in a single bargain. It would be difficult to argue that this means that paragraph 17 (1) cannot apply unless both husband and wife entered into all the associated transactions, since if that was the construction (which without the context would be a reasonable construction), then paragraph 17 (2) would be unnecessary. The sub-paragraph also couples the following in this way:

- (i) a body of persons and a person having control of it;
- (ii) two bodies of persons under common control. 'Body of persons' includes a partnership; and 'control' has the same meaning as in section 333 of the Income Tax Act, 1952 (see section 16 (1) of the 1962 Act). Paragraph 17 (2) ends with a proviso. Considerations given or received by different persons are not to be aggregated under the paragraph:

'unless they are given to or received from a single person or persons in relation to whom they can by virtue of (paragraph 17 (2)) be treated as an entire consideration'.

So much for the general principles of apportionment. Section 13 (4) deals, broadly speaking, with gains from the disposal of an interest in an asset where not all the acquisitions disposed of are 'relevant acquisitions' as defined in section 13 (8) (a) and considered in the fourth article in this series. For instance, the taxpayer may sell land outright, and it may be that he acquired the absolute ownership in steps, some within the

<sup>&</sup>lt;sup>1</sup> Bambridge v. C.I.R. (33 A.T.C. 273).

statutory three years and after April 9th, 1962, some either more than three years ago, or before April 10th, 1962. He might, for instance, have owned a long lease for more than three years, then buy up the reversion and sell the land as a whole. When he acquired the reversion the long lease would merge into the freehold and, of course, he would take one price for the whole. But only the gain applicable to the acquisition and disposal of the reversion is to be taxed under Case VII.

Section 13 (4) has a neat way of dealing with this problem; it provides as follows:

'(4) If in the case of any asset the interest to which the adventure relates does not derive wholly from one or more relevant acquisitions then the gain shall be computed as if such part of that interest as derives from any other acquisition had been first appropriated to the adventure immediately before the disposal.'

In the example cited above, the effect of section 13 (4) is presumably to bring in the whole proceeds of the disposal of the freehold but to enter on the debit side what would have been the market value, at the time of the disposal of the freehold, of the interest which was not the subject of a relevant acquisition. It follows that expenditure confined to that interest is not also deductible.

Although land is the kind of chargeable asset which springs to mind when one is considering section 13 (4), the subsection is not in terms confined to land. Section 13 (5), on the other hand, is expressly confined to 'land'. It will be recalled that section II (I) provides that section 10 (2) 'shall apply to an option or other right to acquire or dispose of land as it applied to land'. Now section 10 (2) lays down a three-year time limit for acquisitions and disposals of 'land', as against the six months for chargeable assets which are not 'land'. It follows that the ambit of section 13 (5) is not extended by section 11 (1). Options to acquire or dispose of land are apparently not land, and therefore are not within section 13 (5), notwithstanding that they have to be held for three years in order to escape Case VII.

Section 13 (5) applies to the following set of circumstances:

- (a) the taxpayer disposes of Blackacre;
- (b) this disposal of Blackacre is part of an 'adventure' for Case VII purposes;
- (c) included in the above disposal is the disposal of Whiteacre (not part of the 'adventure');

- (d) Whiteacre is land adjoining or neighbouring to Blackacre:
- (e) Whiteacre is chargeable assets, i.e. it is not within the exemption in section 11 (4) in favour of trade, etc. premises;
- (f) Whiteaere was not 'acquired as legatee' (presumably by the taxpayer);
- (g) the value of Whiteacre was enhanced by a 'relevant acquisition' of Blackacre;
- (h) part of the consideration for the disposal represent this enhancement.

If all these circumstances apply, then on apportioning the total consideration for the disposal between Blackacre and Whiteacre, for the purpose of the Case VII computation, the whole of this enhancement is to be apportioned to Blackacre and not to Whiteacre. The White Paper on Case VII purports to explain section 13 (5) in paragraph 48, which consists of five lines. The paragraph seems to contain an error, for its says in effect that Blackacre shall not have been acquired as legatee, whereas what section 13 (5) actually says (whatever it was meant to say) is that Whiteacre shall not have been acquired as legatee. (We shall deal with legatees in a later article.)

Section 13 (6) deals with the case of land being disposed of, subject to an interest created by a letting of the land which letting is itself exempted from charge to Case VII tax, by virtue of section 12 (11). It will be convenient to deal with section 13 (6) when we deal with section 12 (11).

Section 13 (7) provides that:

'An asset shall be treated as having been acquired free on any interest or right by way of security subsisting at the time of any relevant acquisition of it, and as being disposed of free of any such interest or right subsisting at the time of the disposal.'

Thus if a taxpayer bought land which was subject to a mortgage to secure repayment of a loan of £1,000; borrowed a further £1,000 also secured on the land; and then sold his equity of redemption for the same price which he had himself paid, then prima facie there would be no profit. But of course the taxpayer would normally be in pocket to the extent of the £1,000 he had himself borrowed. Section 13 (7) seems to ensure that this  $f_{1,000}$  is taxed. If eventually (after Case VII tax had been paid) the purchaser failed to pay off the mortgages, and the taxpayer was called upon to repay out of his own pocket the £1,000 which he had borrowed, then apparently he would have no redress. (To be continued.)

#### THE ACCOUNTANT

## Early Company Legislation

#### HUNDREDTH ANNIVERSARY OF 1862 ACT

by R. ROBERT, A.C.I.S.

HE Bubble Act, 1719, made it an indictable offence for a company to invite public subscriptions, to make its stock transferable or to act as a corporate body, unless it was incorporated by royal charter. This Act, passed with the best of intentions at the time of the 'South Sea fever', held back the development of joint-stock companies for over a hundred years and it was not until after the Napoleonic Wars, when capital was freely available for investment, that the 'pause' was broken. Then, in the 1820s, a boom in the formation of joint-stock companies began and forced Parliament to reconsider the position. In 1825 it repealed the Bubble Act and thenceforth the 'unincorporated' companies were treated as partnerships.

As such they could neither sue nor be sued unless all their members were joined in the legal proceedings. This meant that companies with large memberships were virtually barred from going to the Courts, a circumstance which gave rise to many difficulties. An Act was therefore passed in 1834, empowering the Crown to give unincorporated companies the right of maintaining and defending actions in the name of one or more of the company's officers. This Act, together with that of 1825, was repealed in 1837 and was succeeded by another which permitted the granting to unincorporated companies by letters patent of any privilege which might be granted by charter.

#### **New Form of Association**

A deed of partnership and particulars of members, under the Act of 1837, had to be made available for inspection by anyone on payment of a small fee. The aim was to create a new form of association which had some of the advantages of a corporation but enjoyed neither the monopoly rights nor the limited liability of the chartered bodies. Seven years passed and then, under pressure of events, Parliament was again obliged to review existing legislation. The Joint Stock Companies Act of 1844 was the first to deal with the subject comprehensively and at full length. As at the time of the 'Bubble', 'stock jobbing' was much in evidence and fraudulent schemes for extracting money from the public caused grave concern. A favourite device was using the names of well-known people as directors without authority.

The 1844 Act sought to end abuses of this kind by providing for compulsory registration of jointstock companies, which were defined as all partnerships with more than twenty-five members, and partnerships with transferable shares. Registration was effected in two stages: first, before public subscriptions were invited there had to be a provisional registration; full registration followed after one-quarter of the capital had been received and a deed settlement had been filed. On completion of these formalities the company emerged as a separate, legal entity.

Though the incorporation of joint-stock companies after 1844 became a right instead of a privilege, for practical purposes they still remained partnerships with unlimited liability. This left the company promoters and entrepreneurs with the biggest problem still unsolved.

#### **Beginning of Limited Liability**

Parliament at that time rejected the idea of trading by manufacturing companies whose liability was limited; and in fact ten years elapsed before the climate of opinion changed. Not until 1854 did the House of Commons pass a resolution to the effect 'that the law of partnership should be so far modified as to permit persons to contribute to the capital of such concerns, on terms of sharing their profits, without incurring liability beyond a certain amount'. This resolution, for all its lack of virility, was the father of the Limited Liability Act of 1855, which - though no more than an amendment of the Act of 1844 - established the important principle that joint-stock companies could limit the liability of their members to the amount unpaid on their shares.

This Act was no more than a stop-gap measure, for a Bill revising the whole of company law was laid before Parliament in its next session. This

new Bill, by removing certain restrictions contained in the 1855 Act (such as the stipulated minimum amount of £100 per share), greatly facilitated the formation of limited liability companies. At the same time, by calling for more information to be published it gave a measure of protection to investors. Though some members of the House opposed the new freedoms for jointstock companies, a majority favoured the Government proposals and so the Act of 1856 was duly passed.

#### The 1862 Act

We are now able to consider a major piece of legislation which received the Royal Assent on August 7th, 1862 - just one hundred years ago. The Companies Act of 1862 was intended to be a comprehensive code of law applicable to trading companies for the whole of the United Kingdom. Experience had shown that there were serious disadvantages in allowing trading activities to be carried on by bodies whose membership changed from day to day. Hence, one of the Act's first and most important provisions: that no company, association, or partnership consisting of more than twenty persons (or ten in the case of banking) should be formed after commencement of the Act, for the purpose of carrying on any business which had for its object the acquisition of gain (by the company, association or partnership, or by the individual members thereof) unless it was registered.

Companies formed in pursuance of an Act of Parliament or of letters patent, or companies engaged in working mines within, and subject to the jurisdiction of, the Stanneries, were exempt from the provisions. Fundamentally, the main concern of the Act was that all commercial undertakings - as distinguished from learned, charitable or other non-profit making bodies should be registered. Having made its basic intention clear, the Act went on to indicate the precise manner in which companies were to be

formed and incorporated.

Briefly, it was laid down that any seven or more persons associated for any lawful purpose could, by subscribing their names to a memorandum of association and otherwise complying with the requirements of the Act in respect of registration, form an incorporated company with or without limited liability. The subscribers did not necessarily have to be traders, nor did it matter if six of the subscribers were merely nominees, or relatives, of the seventh. This latter point was made clear beyond a doubt in the famous case of Salomon v. Salomon, decided by the House of Lords in 1807.

The document to be subscribed - i.e. the memorandum of association - corresponded, in the case of companies formed under the Companies Act of 1862, to the charter or deed of settlement in the case of other corporations. The form of the memorandum was given in a schedule to the Act and varied slightly according to whether the company was limited by shares, by guarantee or was unlimited.

#### **Essential Conditions of Incorporation**

Companies limited by shares were required to state: (1) the name of the company with the word 'limited' as the last word in such name; (2) the part of the United Kingdom, whether England, Scotland or Ireland, in which the registered office of the company was to be situated; (3) the objects for which the company was to be established; (4) that the liability of the members was limited; and (5) the amount of capital with which the company was to be registered.

No subscriber could take less than one share and each subscriber had to write opposite his name the number of shares he took. These five points relating to the memorandum of association the Legislature regarded as of such cardinal importance that it required them to be set down for all to see and inspect. They were the essential conditions of incorporation, and as such had to be explicitly stated. Further, with certain exceptions they could not be altered.

With reference to the articles of association, or regulations for internal management of the company, these were regarded as the terms of the partnership which the subscribers had drawn up among themselves and were agreed upon. 'Table A', annexed to the Companies Act of 1862, was a model or specimen set of articles. Accompanied by the memorandum, the articles of association had at that time to be taken to the Registrar of Joint Stock Companies at Somerset House, together with other relevant details.

From what has been said, it will be clear that the Companies Act of 1862 laid the foundations of company law as we know it today. There have been subsequent reshapings, amendments and alterations; two major consolidating Acts in 1928 and 1948 – have been passed, and doubtless the recently published report of the Jenkins Committee presages further modifications. Yet many of the fundamental principles remain very much as they were a century ago.

# Taxation Aspects of Amalgamations and Reconstructions—I

by D. O. BAILEY, F.C.A.

#### Introduction

MALGAMATIONS and reconstructions are almost everyday events in present-day business life and are subjects of constant discussion among business men generally as well as among those who are charged with the actual formulation and putting into effect of the relative scheme. It is common knowledge that such schemes involve many difficulties, and not least of these are the pitfalls introduced by an ever more complicated taxation law. It is only too easy to find that excessive taxation has arisen as a consequence of a transaction which on business grounds would be wholly desirable.

- 2. These transactions may take several forms, and the method adopted may well depend to an important degree on tax considerations. It is for the accountant to weigh up and advise on the consequences of the different methods possible and to point out the pitfalls along the way.
- 3. Very broadly, the courses open fall into two categories, namely, the acquisition of shares or the acquisition of a business.

#### References

4. All references to statutes relate to the Income Tax Act, 1952, unless otherwise stated.

#### Acquisition of Shares

#### Income tax consequences

- 5. Apart from special cases the income tax liabilities of all parties are not affected by a straightforward acquisition of share capital. Reference is made later to the position which arises where such an acquisition is followed by the transfer of a business.
- 6. Where one of the companies concerned has losses carried forward the question arises whether relief can be obtained against the profits of the other company. It is clear that this is not possible so far as losses prior to the date of acquisition are concerned, but relief may be available for subsequent losses.
- 7. The simplest way of effecting this is by subvention payments under section 20, Finance Act, 1953, which applies once two companies are parent and

subsidiary, or fellow-subsidiaries, as defined for profits tax by section 42, Finance Act, 1938. It must, however, be borne in mind that under section 20 (10) the appropriate relationship must exist between the companies at all times from the beginning of the payee company's accounting period to the date of making the payment. It follows that a subvention payment will normally be barred for the first accounting period ending after the acquisition. A change in the payee company's accounting date may be desirable to minimize this difficulty.

- 8. The possibility of feeding profitable business into the company having past losses must be approached with some caution. Losses can only be carried forward against the profits of the same trade as that in which the losses arose (section 342), and cease to be available for carry forward if that trade has terminated (Goff v. Osborne & Co (Sheffield) Ltd (34 T.C. 441)1).
- 9. A similar note of caution is desirable in connection with the possibility of recouping losses by intercompany charges on a generous scale. Limits to this possibility are provided in section 469 which restricts such charges to the independent arm's length rate unless both companies are carrying on a trade in the United Kingdom and the charges would figure in their respective computations of taxable profits. Apart from section 469, however, such charges can be disallowed in the computations of the paying company if they are clearly in excess of a commercial rate (Commissioners of Inland Revenue v. Huntley & Palmers Ltd (12 T.C. 1209)<sup>2</sup> and Marshall Richards Machine Co Ltd v. Jewitt (36 T.C. 511)<sup>3</sup>). An excessive charge may

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<sup>1</sup> 32 A.T.C. 262. <sup>2</sup> 7 A.T.C. 323.

<sup>3</sup> 35 A.T.C. 186.

therefore leave the group worse off, since the disallowance of a sum in the paying company's computation does not necessarily involve the exclusion of that sum from the profits of the recipient.

- 10. A more complicated situation arises where the company whose shares are acquired has accumulated profits out of which dividends are subsequently paid. The practice of 'dividend-stripping' whereby dividends drawn from pre-acquisition profits were used to frank repayment claims was first the subject of legislation in the Finance (No. 2) Act, 1955. Section 4 of this Act was aimed only at finance companies and bodies exempt from tax. In the case of the former the net dividend received out of pre-acquisition profits was to be treated as a trading receipt: in the case of the latter the exemption from tax was not to apply to such dividends.
- 11. By section 19, Finance Act, 1958, these provisions were extended to all persons carrying on a trade, who were deprived of the right to repayment under a loss claim under section 341 of tax deducted from dividends paid out of pre-acquisition profits and further could not include such dividends either in calculating the surplus available for a subvention payment under section 20, Finance Act, 1953, or in deciding whether annual payments were wholly covered by taxed income for the purposes of section 170. There appears to be no prohibition on the use of a dividend paid out of pre-acquisition profits to support a management expenses claim under section 425.
- 12. These provisions having proved insufficient to protect the Revenue, more drastic steps were taken by section 28, Finance Act, 1960. This represented something of an innovation in income tax law in that if the requisite conditions were fulfilled the Commissioners of Inland Revenue were given general powers to counteract any 'tax advantage'. Powers of this kind have previously been given in connection with profits tax and excess profits tax but not in connection with income tax. The counteraction may be effected by assessments, additional assessments, nullifying a right to repayment or requiring the return of a repayment already made.
- 13. The conditions pre-requisite to the application of section 28, Finance Act, 1960, may be summarized as follows:
  - (a) There must be a transaction in securities.
  - (b) In consequence a person must be in a position to obtain, or have obtained, a tax advantage.
- (c) The advantage must arise in one or other of certain defined circumstances, namely:
  - (i) the receipt of an 'abnormal' dividend by a person who, by reason of losses or exemption from tax, is entitled to repayment of tax;
  - (ii) the right to claim an allowance in computing taxable profits for depreciation in the value of securities;

- (iii) the receipt by some person of a non-taxable sum representing the value of assets of a company, under a transaction whereby some other person receives an abnormal dividend or becomes entitled to a deduction as in (ii) above;
- (iv) the receipt by some person of a non-taxable sum in connection with the distribution of profits of either:
  - (a) a company under the control of not more than five persons within the meaning of section 256 or,
  - (b) any other company whose shares are not dealt in on a stock exchange. Subsidiaries of companies exempt under this heading are themselves also exempt.
- 14. Cases (i) and (ii) are reasonably clear and are designed to tax the purchaser of shares under a dividend-stripping or similar scheme, while case (iii) is directed at the vendor. Case (iv) is concerned with liability to surtax and is consequently limited in its application to certain closely-controlled companies.
- 15. The Finance Bill introduced in April 1962, contains provisions which would tighten up the application of section 28, Finance Act, 1960, in regard to transactions carried out after April 9th, 1962. From the information available at the time of publication of the Bill the effect seems to be:
  - (a) To include relief for a subvention payment made by a company in the classes of claims for repayment of tax referred to in paragraph 13, (c), (i) above.
  - (b) To extend the terms of paragraph 13, (c), (ii) above to an allowance claimed in respect of securities formerly held by the taxpayer. Moreover if the tax advantage from such an allowance accrues to another company because it makes a subvention payment that advantage also is to be covered by the section.
  - (c) To treat man and wife as one person for the purposes of section 28.
  - (d) To treat the combined effect of a transaction in securities and liquidation of a company as a transaction in securities within the section.
- 16. The section does not apply if the transaction was carried out for bona fide commercial reasons or in the ordinary course of making or managing investments and if the obtaining of a tax advantage was not a main object. It is also interesting to note that the liquidation of a company is not a 'transaction in securities' within the section (Hansard, May 25th, 1960, column 511). Under subsection (10) application for a clearance from the operation of the section may be made to the Commissioners of Inland Revenue. Such a clearance is final unless there has been non-disclosure of material facts. Appeals against directions under the section may be taken to the Special Commissioners, with a right of re-hearing before a special

tribunal, and there is also a right prior to any proceedings to make a statutory declaration to the tribunal who may decide whether or not there is a prima facie case for action under the section.

- 17. There are certain other cases which may need consideration under the anti-avoidance provisions of the Finance Act, 1960. They are cases of the sale of shares in companies of the following kinds:
  - (a) Companies carrying on a trade of dealing in property or securities.
  - (b) Companies carrying on some other trade, if the value of any single object included in trading stock amounts to one-fifth or more of the value of the net assets.
  - (c) Companies whose activities include the erection of a building, provided the shares are sold within six years of the date of completion of the building and its value, or the aggregate value of all such buildings owned by the company concerned amounts to one-fifth or more of the value of the net assets.
- 18. These provisions only apply where the shares are sold to a person who has, or in consequence of the sale will have, control of the company. They then proceed on the basis that the price of the shares, suitably adjusted for the value of assets other than stock (or buildings completed within the six years) and for liabilities, should be treated as if it represented the sale price of the stock (or buildings). The tax, which may include surtax, is chargeable on the vendor and may bear no relation to the actual profit made by him since, except in very limited circumstances, the price paid by him for acquisition of the shares is disregarded and he obtains no allowance if his cost includes a premium.
- 19. Although the tax under these provisions is primarily payable by the seller of shares, any tax not paid by him is recoverable from the company, and there is therefore a contingent liability to be considered by the advisers of the purchasers. In the cases considered in paragraph 17 (a) and (b) above, but not in 17 (c), there is provision for exemption if the Commissioners (i.e. the General or Special Commissioners, not the Commissioners of Inland Revenue) are satisfied that all the company's trading stock will be disposed of in the ordinary course of business, and a clearance can be obtained from the Commissioners of Inland Revenue on this point. Neither the exemption nor the clearance is, however, of any avail in so far as the stock held by the company at time of sale of the shares remains unsold at the expiry of six years unless the stock was retained for bona fide reasons connected with the trade (subsection (10)). It appears that the Commissioners of Inland Revenue are unwilling to give any form of assurance involving any admission as to the scope of these provisions.
- 20. Where shares in a company have been sold in such circumstances as are referred to in paragraph 17, but no tax was assessed at the time of that sale because

the Commissioners were satisfied that the trading stock would be sold in the ordinary course of business, a subsequent purchaser of the shares may be in difficulties if some part of the stock remains unsold at the end of six years. The assessment under subsection (10) is in such a case made on the company, and the Finance Act gives no right of recovery from shareholders or former shareholders. The possibility of such a position arising must therefore be investigated if the company under consideration is of the type likely to be affected.

21. These provisions only apply where shares are sold. It is understood that in law an exchange does not constitute a sale, so that certain forms of amalgamation not involving a cash consideration may be outside these provisions.

#### Profits tax consequences

- 22. The question again arises as to the position where one or other of the companies concerned has incurred or is incurring losses. As regards postmerger losses the parent company has the right to give notice of election for group treatment under section 22, Finance Act, 1937. The notice will apply for chargeable accounting periods throughout which the necessary relationship subsists, and it is the practice of the Commissioners of Inland Revenue, by virtue of their powers under section 38 (4), Finance Act, 1947, to direct that a separate chargeable accounting period shall commence on the date of acquisition of the shares.
- 23. Losses incurred in periods prior to the operation of the grouping notice remain individual to the companies which incurred them. These losses are deducted from the profits of the company concerned before arriving at the amount to be included in the group computation.
- 24. In any consideration of the profits tax position it is always necessary to bear in mind the powers of the Commissioners of Inland Revenue under section 32, Finance Act, 1951, to counteract any avoidance or reduction of liability to profits tax, if in their opinion such avoidance or reduction is a main purpose of a transaction. Where the transaction consists of a transfer of shares or debentures, and in certain other limited circumstances, these powers will apply if, whatever the main purpose, the main benefit which might have been expected to arise in the three years immediately following the transaction was the avoidance or reduction of profits tax. This involves an estimate, on a reasonable basis, of the position as it appears to be when looked at at the date of completion of the transaction. Application may be made to the Commissioners of Inland Revenue in advance of a proposed transaction for a clearance against possible liability under this section.

#### Surtax consequences

25. Where the company whose shares are acquired is a 'surtax company' within the provisions of section

245 the purchasers must consider the possibility of directions under that section in relation to past profits. The mere absence of directions to date cannot be regarded as affording any protection.

26. For accounting periods ended prior to August 1st, 1957, the well-known 'Chancellor's umbrella' provided adequate protection in a straightforward case. Subsequent periods remain subject to the full rigour of the law, except that, following on the Chancellor's request for dividend restraint in 1961, the following statement was made on his behalf:

'As hitherto, where there has been no material change in circumstances, surtax action will not be taken against a trading company which distributes the same proportion of its profits as the Special Commissioners have accepted as reasonable for past years.' (Hansard, Vol. 645, No. 162, colš 202-3).

It will be observed that the emphasis is on the proportion of profits distributed. It is, of course, open to a company to defend the distribution of a lower proportion in appropriate circumstances, e.g. where all profits have been absorbed in development of the business.

- 27. The most satisfactory step is to obtain clearances under section 252. Unless there has been a failure to disclose material facts such clearances may be regarded as providing full protection. In the absence of clearances indemnities with suitable backing are essential.
- 28. A difficulty may arise in regard to the accounting period immediately preceding a sale of the company's shares. If the interval between the end of the accounting period and the date of sale is short, and if the purchaser is a company outside section 245, it may be suggested that there is no likelihood of a direction for that period. This view will not necessarily be accepted by the Special Commissioners. They, relying on the requirement that dividends should be declared within a reasonable time, may argue that the vendor shareholders would have obtained sufficient information before selling their shares to enable a decision as to the amount of a reasonable dividend to be taken then, and that accordingly any subsequent distribution could be outside the 'reasonable time'.
- 29. As regards the accounting period in which the shares are acquired, the position should be within the control of the purchasers. A point to be borne in mind is that, if the shares are acquired by a company outside section 245, the acquired company is not necessarily itself outside the section. It would remain subject to the section if, on a notional apportionment of its income, more than half would be apportioned to five or fewer persons (section 256 (4) and section 256 (2) (c)). The importance of this point in relation to the period in which the sale of shares takes place arises from the fact that an apportionment can be made to persons who were shareholders at any time during the period (C.H.W. (Huddersfield) Ltd v. C.I.R. (40)

A.T.C. 371)). Care should, therefore, be taken to ensure that for this period a reasonable dividend is declared within a reasonable time.

#### Estate duty

- 30. A company may become liable for payment of estate duty under section 46, Finance Act, 1940, and the purchaser of shares must be on his guard against any such possibility.
- 31. The companies subject to this legislation are generally defined on the same basis as surtax companies within section 245, except that there is no exemption for a public company or a company in which the public are substantially interested. The broad effect of the section is to charge to estate duty a proportion of the company's assets corresponding to the proportion which the 'benefits' received by a deceased person bore to the company's income. The basic conditions prerequisite are:
  - (a) that the deceased shall have made a transfer of property to the company, and
  - (b) that he shall have received benefits, as defined, from the company within the five years preceding his death.
- 32. If these conditions apply it may be difficult to form a close opinion as to the potential liability and indemnities would be required. In most cases, however, there should be little to fear as the legislation is in practice only applied where the company has formed part of a scheme for evasion of estate duty and the Estate Duty Office has given the Law Society assurances to this effect.

#### Stamp duty

- 33. Stamp duty would normally be payable at 2 per cent on the consideration for the acquisition of shares, and, if the transferee company has to increase its own nominal capital, at 10s per cent on such increase. Relief, however, may be available under section 55, Finance Act, 1927.
- 34. The requirements for a claim under that section may be summarized as follows:
  - (a) a scheme for reconstruction of a company, or for the amalgamation of companies;
  - (b) in connection with such scheme a company has been registered or increases its nominal capital;
  - (c) the registration or increase in capital takes place with a view to the acquisition of not less than 90 per cent of the issued share capital of an existing company;
  - (d) the consideration consists as to not less than go per cent of the issue of shares in the transferee company to the holders of shares in the company to be acquired.
- 35. If the conditions are fulfilled relief from stamp duty is given:
  - (a) from capital stamp duty on the lesser of the

share capital of the company to be acquired and the amount to be credited as paid up on the shares to be issued as consideration;

- (b) from transfer stamp duty on the transfers of shares in the company to be acquired.
- 36. The memorandum of association of the transferee company should refer to the acquisition as one of the company's objects, or alternatively the resolution increasing its capital should state that the increase is for the purpose of the acquisition.
- 37. The exemption will be withdrawn if the shares acquired are disposed of within a period of two years otherwise than in consequence of reconstruction, amalgamation or liquidation. The disposal of even a small number of shares will bring about this result.
- 38. It is essential that the particular scheme should relate to the acquisition of 90 per cent of the transferor company's share capital. If the transferee company already holds over 10 per cent the exemption does not apply. The new shares must moreover be issued to the shareholders of the transferor company, not to their

nominees or to persons to whom they have sold shares, so that the use of renounceable allotment letters is undesirable.

- 39. Where no claim arises under section 55, Finance Act, 1927, a saving of transfer stamp duty may be effected by the use of renounceable allotment letters. Letters of allotment and letters of renunciation are not subject to stamp duty.
- 40. If the accounts of the transferor company permit, therefore, and if it has the requisite powers, it can capitalize an appropriate part of its reserves and issue renounceable allotment letters to the shareholders. These letters can be renounced, free of stamp duty, in favour of the transferee company, while the consideration for the transferor company's original share capital, on which duty is payable, will be correspondingly reduced.
- 41. Questions affecting stamp duty require the advice of lawyers and it would be inappropriate for the accountant to purport to deal with them in detail.

(To be concluded.)

## Weekly Notes

#### REVENUE WARNING TO TAX OFFENDERS

NSWERING a question in Parliament on August A2nd as to the present practice of the Revenue in regard to instituting criminal proceedings for alleged fraudulent claims to income tax personal allowances and to expenses deductions, particularly where the taxpayer has made a voluntary disclosure of his offence, the Financial Secretary to the Treasury stated:

Criminal proceedings are normally instituted against a person who has evaded tax by making a fraudulent claim to income tax personal allowances or to an expenses deduction. The Commissioners of Inland Revenue have power under the income tax Acts, however, to make a monetary settlement with such a person and in such a case criminal proceedings are not taken against him.

In all cases, including cases of voluntary disclosure, the Commissioners reserve to themselves complete discretion as to their course of action; they can give no undertaking that criminal proceedings will not be taken. Nevertheless, if a person who has made a false claim comes forward voluntarily, without having been challenged with his offence, and makes a full and complete confession, these facts have great influence on the decision as to whether or not he should be prosecuted.

Any person who has made a false claim should

therefore consider whether it is in his or her interest immediately to make a disclosure of it to the Inland Revenue.

The Inland Revenue say that this statement has been made following suggestions that there is a considerable number of people who have made or are making false claims to income tax personal allowances and who would now like to straighten out their tax affairs but are deterred from doing so by fear of prosecution and imprisonment. Such people are, as a rule, law-abiding citizens apart from their tax offences and it is hoped that this statement - to which some publicity is being given by, e.g. a poster being exhibited in tax offices - may encourage them to come forward and confess.

The sort of offences dealt with by the statement consist, for example, in claiming income tax allowances for children who do not exist, or for the maintenance of relatives to whose support no assistance is in fact given. The statement also covers another sort of offence - fraudulent claims to tax allowances for expenses, e.g. a gross inflation of mileage covered (and hence expenses incurred) by persons who have to use their cars in the course of their employment.

Anyone who evades tax by fraudulent claims is liable to prosecution; alternatively, he may be charged with money penalties. In either case he has to pay back the tax lost. This statement is not an 'amnesty' for such offenders, observe the Revenue, it merely makes clear that where a tax offence of this class is detected by the Inland Revenue, criminal proceedings usually follow (and the offender has still to repay all the tax lost). On the other hand, where the offence comes to light only because the offender comes forward and makes a spontaneous and full confession,

then this weighs heavily in favour of a money settle-

ment and against prosecution.

The number of cases of false claims to tax allowances and expenses deductions which have been detected by the Revenue and made the subject of criminal proceedings has risen in recent years. In the years ended March 31st, 1959, 1960 and 1961, the numbers convicted were respectively fifty-four, thirty-one and sixty. In the year ended March 31st, 1962, eighty people were prosecuted for such offences. All were convicted, and thirty-four were sent to prison for terms ranging up to two years. The remainder were mostly fined varying sums.

## INSTITUTE PRESENTATION TO MR AND MRS MacIVER

LAST week's meeting of the Council of The Institute of Chartered Accountants in England and Wales was attended by Mr Alan S. MacIver, C.B.E., M.C., B.A., for the last time before his retirement from the secretaryship of the Institute next October. Mrs MacIver was also present.

The occasion was marked by the passing of a resolution recording the Council's gratitude to Mr and Mrs MacIver and by the presentation to them of some Georgian silver, with a fob watch as a personal gift to Mrs MacIver. The resolution was proposed by the senior Past President, Sir Thomas

Robson, who said that it would be stating the obvious to say that Mr MacIver had enhanced the prestige of the Institute 'throughout these islands and wherever he has gone on its behalf overseas'. The resolution, seconded by Mr Leonard Barrows, was as follows:

'As today Mr A. S. MacIver, C.B.E., M.C., is attending this Council as Secretary of the Institute for the last time before his departure on Institute business to North America and his subsequent retirement, the Council expresses to him and to Mrs MacIver the warm affection of its members and other members of the Institute for them both.

The Council records its deep sense of gratitude for the self-sacrificing, distinguished and devoted service which Mr and Mrs MacIver have performed for the Institute since Mr MacIver first became associated with it as Assistant Secretary in 1935, becoming Deputy Secretary ten years later and succeeding to his present appointment as Secretary in 1970.

'The Council offers to Mr and Mrs MacIver its sincere good wishes for their future happiness and asks them to accept the gifts which will now be presented by the President as a token from past and present members of the Council of the great esteem in which Mr and Mrs MacIver are held.'

Acknowledging the presentation, Mr MacIver commented on the changes at the Institute since he joined the staff in 1935. The membership was then little over eleven thousand, the total staff was seventeen and, he said, amid laughter, 'Moorgate



Mr MacIver thanking the Council for the presentation made to himself and Mrs MacIver. The President, Mr Percy F. Carpenter, F.C.A., is in the chair.

Place was then remarkable for an atmosphere of almost complete inactivity'. The staff now numbered about one hundred and twenty, with a membership approaching thirty-six thousand. Mr MacIver said he would be leaving in October 'with very happy memories and a very great measure of affection'.

The speeches are reported in full on other pages.

#### INSTITUTE STAFF APPOINTMENTS

THE Council of The Institute of Chartered Accountants in England and Wales has announced the appointment, as Joint Secretaries, of Mr F. M. Wilkinson, F.C.A., and Mr C. A. Evan-Jones, M.B.E., in succession to Mr A. S. MacIver, C.B.E., M.C., B.A. Their appointment will take effect from November 1st next.

It is also announced that Miss M. T. D. Reynolds, B.A., an assistant secretary of the Institute since 1947, is to be appointed an Under-Secretary as from November 1st.

#### I.M.T.A. ON DECIMAL COINAGE

In a memorandum on decimal coinage prepared for submission to the Halsbury Committee and reproduced elsewhere in this issue, The Institute of Municipal Treasurers and Accountants considers the question of conversion mainly from the viewpoint of its members most of whom are local government officers. It suggests that the change to decimal currency would be one of balance of advantage rather than of complete superiority of any proposed system over the existing one. The Institute is satisfied that, even on this basis, the change-over should be made and favours a principal unit of 10s with a hundred sub-units rather than the division of the present pound into a thousand units. It also suggests that, even at the risk of 'some possibility of confusion at the period of change-over', the name 'pound' should be retained and applied to the 10s unit.

This seems scarcely a practicable proposal and even less so the Institute's method for dealing with the future of the penny:

"The single problem in adapting present coins for use in a new currency is then whether the penny, while still in circulation, can be used as one cent, although one cent would be worth 1.2d. This difference is so trifling and the profit to be made from hoarding the penny so small that the Institute, whilst recognizing the difficulties inherent in dual currency, suggest that from a given date and for a limited period the penny might be regarded as a cent, thus making the two currencies fully interchangeable transitionally."

The first essential of any currency conversion scheme is that the absolute and, therefore, relative values of all coins in circulation should be scrupulously maintained. Even if the degree of profit made from hoarding pennies was almost infinitesimal, this fundamental principle of equity, if the Institute's

proposal was implemented, would be violated and the faith of the population in the fairness of the changeover might, in consequence, be seriously impaired.

#### LIAISON ON SHIPPING

AT the end of last week the Minister of Transport announced the setting up of a Shipping Advisory Board to act as a liaison committee between the Government and the shipping industry. There will be seventeen members and of the two non-shipping people on the board, one will be Sir William McFadzean, c.a. The other is to be Mr Paul Chambers, chairman of Imperial Chemical Industries Ltd.

The members of the board also include Mr A. E. C. Drake, c.B.E., M.A., F.C.A., a managing director of British Petroleum. The Minister himself will act as chairman. The terms of reference will be to advise the Minister on economic and commercial matters affecting the future prosperity of British shipping. Its purpose will be to act as a forum for discusion of general problems, Government officials alone working off previously prepared briefs.

The appointment of eminent industrialists from outside the shipping world will ensure that the committee will not operate merely as a highly informed and distinguished pressure group; it will also bring to the deliberations experience from the outside to an industry which has suffered to no small extent in the past from inbreeding and isolation. Its function, however, is clearly not to prepare or study blue-prints for the shipping industry but to bring about the cross-fertilization of ideas which may have some influence on Government policy.

### INFORMATION ON THE COMMON MARKET

THE hold-up in the Common Market negotiations I may serve as a reminder that Britain is as yet a good way off membership of the European Economic Community. That her ultimate entry is certain seems to be the view of many Britons, hence in anticipation of that event the business community is rapidly acquainting itself with the business, legal and financial structures of the Six. A recent effort at disseminating such information about the Six comes from Lloyds Bank which has produced seven small pamphlets under the general title of Expansion into Europe. The first of these discusses the basic issues raised by Britain's request for admission to the E.E.C. while the others, one for each country, deal with the main economic features of the member countries. These very short pamphlets, most of them are less than ten pages, are excellent summaries of some key facts on taxes, trade, exchange control and company law. They are available, without charge, from any branch of Lloyds Bank.

The first of yet another series of explanatory

booklets on the E.C.M has also emerged. This time from the Federation of British Industries.

It is called *The Treaty of Rome*<sup>1</sup> and was written in June 1962, while the negotiations were in progress. It starts off with a brief but useful glossary of abbreviations used in western economic jargon, followed by an historical outline of the various western European economic organizations created since the war.

There follows a short but valuable summary of the Treaty of Rome with an indication of where a copy of the unofficial English text can be obtained. There is of course no authentic English version. In the

margins of the booklet will be found cross-references to the articles in the Treaty.

Cross headings in bold type give subject headings which can be easily looked up by the reader. At the end there is a chapter which answers certain general questions likely to be of interest to British exporters. These include the length of time industries will have to adjust themselves to competition from countries already within the Six if Britain enters the E.C.M. and whether taxation will be changed. The view is expressed that the British direct taxation system seems unlikely to be affected for a long time but the indirect system may face harmonization problems in due course.

## This is My Life . . .

by An Industrious Accountant

CHAPTER 132

OUR shirt factory sales have been booming with the big demand for the new light-weight 'specials', and Mrs Smith-Smith's shop in a well-known coastal resort has been buying heavily from us. I met her recently, as hard-eyed a bargainer as ever I saw, who expounded briskly on her prosperous season and record business. So it caused quite a sensation when she 'went broke'.

In fact, our first intimation was the arrival of her solicitor's letter enclosing the usual statement of affairs. Half-a-crown in the pound she'd pay right away, with two instalments totalling as much again in the year to come. All subject to prompt acceptance by the creditors, of course; and there was a sort of impression created that it was only Mrs Smith-Smith's charitable generosity that made even this modicum possible. The first creditors' meeting would be held at once.

I noted with chagrin that we were by far the largest account in the analysis of her liabilities. This time we had slipped up; though all the available evidence indicated that she had resources. I smelt a rat somewhere. Our irascible deputy-chairman, who knows her personally, was fuming with outraged annoyance. The escutcheon of the accounts department was blotted; action was essential.

Of course, all these statements of affairs are capable of being fiddled. Take the sundry debtors item, for example. Total £2x good, £y doubtful; expected to realize £x. If Mrs Smith-Smith gave out all that dud credit, she must have been doddering; and in the phrase of Ruggles of Red Gap, she would fight a rattlesnake and give it the first two bites. Or stock-intrade £2x at cost, estimated to realize £x. And how? Maybe there was a roomful of it somewhere that she

had forgotten to mention, or some savings in an old sock in the attic at home.

Anyhow, it seemed that the old battleaxe was calmly proposing to slough three-quarters of her legal liabilities like the aforesaid snake its old skin, and continue trading as before. She'd probably be in to us looking for credit by next spring. Indeed, her solicitor's last sentence proclaimed her desire to rely on the forbearance and helpfulness of her old and valued suppliers to ensure unhampered operations in the future. No reference to her moral obligation to pay off the deficit when she found her feet again. There was a lack of old-fashioned decency about it that revolted me, and I said as much. 'Nonsense', grunted the deputy-chairman, 'you'll always have these tricky types. Nothing to be done about it; spilt milk and all that... write it off to experience.'

My blood began to simmer; I seized the telephone and told our solicitor to object: to tell her that we'd fight every step. Unless the offer was substantially increased, we'd demand to examine her books; we'd contact the Bankruptcy Court inspectors.... He was rather amused at my reaction. That wasn't the drill, he explained, these things followed a pattern nowadays. But I dug my toes in and he agreed coldly to follow his instructions.

In due course he telephoned again. Mrs Smith-Smith would do her utmost to meet us. She'd try to pay 7s 6d in the £1 in three instalments at the risk of wearing her fingers to the bone, but her solicitors had naturally been somewhat pained at our uncouth reaction. The other creditors were stoically acquiescent; we alone were hounding the destitute widow. I told him to seek Counsel's opinion forthwith. To cut a long story short, we finally compromised on a settlement at 9s in an atmosphere of unanimous umbrage.

When I told the deputy-chairman the result of the struggle, he just grunted again. 'You should have got at least ten bob,' he said. 'It was obvious from the start she was a twister.'

You can't please everyone these days.

<sup>&</sup>lt;sup>1</sup> Price 2s, from the F.B.I., 21 Tothill Street, London SW1.

# Finance and Commerce

#### **Quarterly Figures**

GRADUALLY, company reporting moves to higher levels. Our reprint this week comprises examples of interim statements: the first consolidated quarterly statement of The De La Rue Co Ltd, a familiar name in the business world and associated in the public mind with a wide variety of activities from security printing to the manufacture of playing cards, Formica and, more recently, computers; and the monthly statement of the Caterpillar Tractor Company of America.

Mr B. C. Westall, the chairman, in a letter to shareholders introducing the new quarterly statement, reminds them that it has always been the board's aim to keep shareholders as fully conversant with the company's affairs as possible. To this end, a series of board meetings has been held in various places outside London, shareholders being invited to meet the directors after the meetings. Half-yearly statements, initiated a few years ago, he says, have been welcomed

not only by shareholders but by the financial Press and the board feels that this extension to the quarterly statement will be further applauded.

#### Lean and Fat

Mr Westall says the board has been a 'little hesitant about doing this because the results of any one quarter when compared with the corresponding period of the previous year may be misleading. For one thing,' he points out, 'figures for the quarter may be affected by costings of a series of lean or fat contracts. For another the figures may be influenced by the conclusion of a number of big contracts'.

"The comparison between the profits of this quarter, namely, £161,000 as against £72,000 last year is a

good illustration of what I mean', he says.

He warns shareholders that it must not be assumed from the quarter's comparison that the year's profits will increase in that ratio. 'It would be a mistake to multiply £161,000 by four and to assume that that will be the profit of the year.' And he reminds them that 'the results of the first quarter were very much as we expected when I wrote my review to shareholders which you received a week or two ago'. He hopes that as time goes on, the quarterly statements will be of increasing benefit to shareholders and whenever the figures are affected favourably or unfavourably by unusual circumstances, the board will do its best to give an explanation.

No doubt it took a good deal of courage to start

## THE DE LA RUE COMPANY LIMITED CONSOLIDATED QUARTERLY STATEMENT (for the twelve weeks ended 23rd June 1962)

					lst quarte <b>r</b> 1962/63	lst quarter 1961/62	Year 1961/62
urnover .				ľ	£	£	£
Home sales					2,105,000	1,868,000	8,977,000
Export sales from the United Kingdon	۱				1,470,000	946,000	6,958,000
Sales by overseas companies	••			4.	1,646,000	1,343,000	5,974,000
_					5,221,000	4,157,000	21,909,000
				ĺ	£	£	£
Profit before tax			••		521,000	361,000	2,599,000
Tax			••		284,000	210,000	1,494,000
Profit after tax					237,000	151,000	1,105,000
Interest of outside shareholders	• •				76,000	79,000	273,000
Profit attributable to the De la Rue Co	o. Ltd.	••	••		161,000	72,000	832,000

These figures have not been audited and may be subject to adjustments which can only be made in the accounts for the full year.

quarterly statements with a 'lean' and 'fat' comparison. The lean-fat problem is one of the big arguments against quarterlies and it takes time to build up the longer view that puts the figures into proper perspective. But it is a move in the right direction and the De La Rue board deserves congratulation.

#### Monthly

THE other example of 'interims', published almost at the same time as the De La Rue quarterly is the monthly/quarterly from the Caterpillar Tractor Company of America. It is given without comment: Caterpillar is no stranger to this column. It is interesting to note, however, that the statement is dated July 17th, in Peoria, Illinois, and was received in London on July 19th. One cannot but recall and compare the one-time objection to the production of consolidated accounts that it took time to get figures from subsidiaries abroad.

#### Non-recurring

MR L. HORVATH, chairman of Daintifyt Brassiere (Holdings) Ltd, tells shareholders in his statement with the 1961 accounts of 'comparatively large non-recurring amounts' which have been deducted before arriving at the group net trading profits. The accounts show a profit on trading of £227,994, against £296,715, and a net profit before taxation of £180,493, against £250,113. The accounts themselves, however, do not bring to the fore the fact that there is this non-recurring element in the figures.

Mr Horvath refers to a sharp increase in competition, especially from new manufacturers, which became apparent during 1960. To counteract the effect this was expected to have on the group's trading, the directors took 'decisive steps' which they felt would justify their actions in the future. They sought to reduce production costs without impairing the quality of the group's products, and to achieve this objective they engaged American production consultants to streamline manufacturing methods in the factories 'at a cost this year of £32,827 (1960, £12,714)'. 'I venture to suggest', says Mr Horvath, 'that the net profit figures should be read in conjunction with this expenditure.'

Incidentally, there was no mention of the 'sharp increase in competition' in the 1960 statement, or of the item of £12,714. That year's net profit of £250,113 compared with £242,736, and the dividend was 32½ per cent against 27½ per cent.

#### CATERPILLAR TRACTOR COMPANY

•													July 17, 1962
Caterpillar Tracto	r Co. t	oday	(July I	7, 1962	) repo	rted th	e follo	wing co	nsolid	ated re	sults	of operations:	
For the month of	lunna											1962	1961
For the month of	June:								•		7		
Profit per share	of con	nmon	stock	outstai	iding a	t the e	nd of t	he peri	od	٠		<b>\$-24</b>	<b>\$</b> -21
Sales	••							••	٠,			\$78,975,358	\$70,912,164
Profit after taxe	:S	• •	•,•				• •	•• .				\$ 6,628,304	\$ 5,812,318
Profit percentag	e of sa	les	••		:.	••	:•	••	••	• •		8-39%	8-20%
						-	*						
Three months end	led Jun	e:											
Profit per share	of con	nmon	stock (	outstar	ding a	t the e	nd of t	he peri	od			\$-72	\$-57
Sales		• • •					. J	. ••	• •			\$239,006,426	\$200,876,003
Profit after taxe	5	••		• •		•• 4						\$19,704,201	\$15,696,695
Profit percentag	e of sa	les						••	••			8-24%	7.81%
					•								
Six months ended	June:												
Profit per share	of con	mon	stock	outstar	ding a	t the e	nd of t	he peri	od	••	· · ·	\$1.26	<b>\$</b> -99
Sales								·	··.			\$429,737,331	\$369,064,625
Profit after taxe	s	••										\$34,739,231	\$27,258,989
Profit percentag	e of sa	les					••	••		••	••	8.08%	7-39% .

#### CITY NOTES

EXPERIENCE in the new issue market is currently providing a clear view of changed investment trends. New equity share offers even if they attract oversubscription, which is certainly not the guaranteed process it once was, are apt to slide to a discount in early market dealings.

On the other hand, the run of fixed interest offers is attracting strong support with stock usually moving to a small premium on initial business. Following the considerable success of the Warwickshire County Council loan the Plymouth and Southampton Corporations are coming to the market with 6 per cent 1973 loans offered at £98 per cent, Plymouth offering £4 million of stock and Southampton £5 million.

Other corporation offers are known to be on the way with a Liverpool loan probably nearing the launching stage.

The gilt-edged market is showing a better capability than the equity market to absorb sizeable new offers, even though equities are now showing a rallying tendency. The market looks to be bumping on the bottom, but there are still too many unknown quantities in the stock-market equation for any definite answer to be arrived at as to whether or not there is now a basis for a reliably-based rally.

With Common Market negotiations hanging fire until mid-October and economic policy of the revised Cabinet still undisclosed, 'watch and wait' is likely to be the majority investment view for a while to come.

#### RATES AND PRICES

Closing prices, Wednesday, August 8th, 1962

Tax Reserve Certificates: (interest rate) 28.4.62 23%

	(									
Bank Rate										
Oct. 27, 1960 5½%	Nov. 2, 1961 6%									
Dec. 8, 1960 5%	Mar. 8, 1962 5½%									
July 26, 1961 7%	Mar. 22, 1962 5%									
Oct. 5, 1961 6½%										
02/0	119111 20, 1902 42 /0.									
. Treas	sury Bills									
June 1 £3 158 7.98d%	July 6 £3 18s 0.63d%									
June 8 £3 15s 0.28d%	July 13 £3 17s 9·32d%									
June 15 £3 145 4.01d%	July 20 £3 18s 7·14d%									
June 22 £3 16s 11.8d%	July 27 £3 175 8.89d%									
June 29 £3 18s 5.03d%	Aug. 3 £3 16s 5.05d%									
34110 29 83 200 3 034 /6	, 11ag. 3 53 100 3 03a/0									
Money Rates										
Day to day 27-37%	Bank Bills									
7 days 23-37%	2 months 4 16-4 18%									
Fine Trade Bills	3 months 4 18-48%									
3 months 5½ 6%	4 months 4 10 4 16 %									
4 months sl-6%	6 months 4 16 -4 16 %									
4 months 5½ 6% 6 months 5½ 6½%	4 16 76 Thomas									
_	Exchanges									
New York 2.80 \(\frac{3}{32}\)	Frankfurt 11.20									
Montreal 3.02	Milan 1741 d									
Amsterdam 10·102	Oslo 20.03\frac{3}{8}									
Brussels .139.491	Paris 13.74 <sup>2</sup>									
Copenhagen 19.382	Zürich 12-12 }									
Cil	t-edged									
Consols 4% 65	Funding 3% 59-69 87 #									
Consols 2½% 42⅓	Savings 3% 60-70 83 18									
Conversion 51% 1974 968	Savings 3% 65-75 74 18									
Conversion 5% 1971 951	Savings 2½% 64-67 88 33									
Con'sion 3½% 1969 88 1	Treas'ry $5\frac{1}{2}\%$ 2008–12 90 $\frac{7}{8}$									
Conversion 3½% 58½	Treasury 5% 86–89 86 13									
Conversion 3½% 58½ Exchequer 5½% 1966 101 3	Treasury 3 1 77-80 73 1									
Funding 5 1 % 82-84 04 1	Treasury $3\frac{1}{2}\%$ 79-81 72 $\frac{13}{18}$									
Funding 4% 60-90 90 8	Treasury 21% 421									
Funding 31% 99-04 621										
Funding 4% 60-90 90 8 Funding 3½% 99-04 62 1 Funding 3% 66-68 88½	War Loan 3½% 57 18									
3 0 70 - 70	52,0 5716									

## Taxation Case

A full report of the case summarized in this column will be published, with a Note on the Judgment, in the 'Annotated Tax Cases'.

#### Bicber Ltd v. British Guiana C.I.R.

In the Privy Council - June 19th, 1962

(Before Lord Evershed, Lord Morris of Borth-y-Gest and Lord Pearce)

Income tax – Dividend paid out of capital surplus – Whether income of recipient – British Guiana Tax Ordinance, section 5.

The appellant company was incorporated in the United Kingdom, and it carried on business in British Guiana. It owned 600 shares in another company incorporated there, and that company sold

some of its fixed assets, and realized a surplus, which was admittedly on capital account. The surplus was transferred to a capital reserve, and a dividend of \$2 a share was paid out of the sum standing to the credit of that reserve. The amount of the dividend received by the appellant company was \$1,200.

The Commissioners of Income Tax of British Guiana assessed the \$1,200 as investment income of the appellant company. The appellant contended that the \$1,200 was not liable to income tax under the heading '(c) dividends, interest or discounts', in section 5 of the British Guiana Income Tax Ordinance, but on appeal the assessment was confirmed. On further appeal to the Full Court of the Supreme Court of British Guiana, the decision was reversed, but on appeal by the respondents to the Federal Supreme Court of the West Indies the judgment confirming the assessment was restored.

Held: the judgment of the Federal Supreme Court of the West Indies was correct.

# Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

#### Tax Allowance: Specialist's Home Telephone

SIR, - Thank you for your comments on my inquiry published on page 75 of *The Accountant* of July 21st. The Inspector of Taxes, however, contends that the allowance cannot be claimed, quoting the case of *Nolder v. Walters* (9 A.T.C. 251; 15 T.C. 380).

Yours faithfully, EMERGENCY.

[It is difficult to appreciate the Inspector's contention. In the present instance it would seem from the information given in our correspondent's previous letter that it is a condition of the employment that a telephone shall be maintained. This was not so in Nolder v. Walters. There is a further distinction in that a medical specialist would have to carry out his duties at his residence or elsewhere as circumstances require, whereas an airline pilot (as in Nolder v. Walters) could not commence his duties until he reached the airfield. – Editor.]

#### The Accountant in the Motor Age

SIR, - Within the World Traffic Management Centre which I am trying to form, the accountant would have

a very important job of work to do.

I am anxious that the architect and town planner should appreciate that the question of urban development must come from what I call a 'balanced judgment'. To exclude the accountant from any national planning team would be to bring discredit to any reconciliation between what the planners want and what they will achieve.

In recent submissions to the Committee of Inquiry into the Problem of Noise, I have dealt with the overall transportation scene. The cost of reducing noise must be measured in relation to reducing inventive genius – a job for the accountant, for unless economics come within the realm of research, we shall never produce those projects which industry and commerce will find economic to exploit.

The traffic problem must be viewed in relation to the overall cost to the community. Can an architect or town planner adequately do this? I think not, and it is imperative that experienced accountants from within industry and commerce are available to measure the effect of planning conceptions in advance of their imposition by authority.

Thus the World Traffic Management Centre could be the beginning of a comprehensive approach to urban development in a practical way. I would hope to have research projects developed in which account-

ants would play an increasingly important part. To my mind to advance without the accountant will be to fail. I want to see different design conceptions of vehicles, but ways and means must be found of providing solutions to fit the requirements of massproducing industries. How can this be obtained if the very men who measure cost, who calculate capital structures, are excluded from participation?

My suggestion to accountants everywhere is to press for inclusion within the Centre should it be established. I shall be happy to deal with any letters on this subject should any reader be interested.

> Yours faithfully, BR∪CE DELVE.

Byways Cottage, Northdown Way, Margate, Kent.

#### **Television Rentals**

SIR, - We should be glad to hear of the experience of any readers in circumstances similar to the following.

A retailer of electrical goods, principally radio and television sets purchases these for renting. He displays these in his showroom and may, albeit rarely, sell one for cash but does not separate his stock at this point between those sets available for hire and those available for sale. With few exceptions the sets are rented out.

Is he entitled to investment allowance on these sets as plant, or is he only so entitled if from the moment of receipt from his supplier he segregates

the sets bought for hiring?

In the course of hiring out the sets he finds it necessary to obtain finance by way of discounting rental agreements and a point is reached where he finds himself over-committed. At this point he is approached by a finance house which offers to purchase the rental agreements at a price considerably in excess of the value at which the hired sets appear in the stock sheets, the latter value having been accepted by the Inland Revenue for normal accounting and assessment purposes.

The Inspector contends that the total sums receivable for the sale of the agreements is assessable.

It is contended for the taxpayer that such sums, in so far as they exceed the agreed stock values represent a premium for the rights in the agreement, are for goodwill and are capital.

Yours faithfully, T. V. HIRE.

#### Getting Ready for Decimalization?

SIR, — It may not have been generally noted that the 5s receipts franked on to documents sent for filing at the new Companies Registry show the amount paid as £00.25. It would seem that the Board of Trade are really getting ready for possible decimalization!

Yours faithfully, JOHN W. SMITH.

Richmond, Surrey.

## **Decimal Currency**

#### A memorandum prepared by

# THE INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS

#### Introduction

THIS memorandum was prepared by The Institute of Municipal Treasurers and Accountants at the invitation of the Committee of Inquiry on Decimal Currency. The Institute is a professional body of accountants whose membership extends to many different branches of the public service. Most of its members, however, are employed as chief and senior financial officers in the local government service; and for this reason the memorandum is mainly directed towards aspects of a decimal currency of application to local government with the further object of presenting a document acceptable to all the local authority associations, and avoiding the submission of separate memoranda.

2. Because of the range of the services which they administer and of the large staffs which they employ, local government and other public authorities will experience most and probably all of the problems which will inevitably arise on the change to a decimalized currency, whatever its form and however advantageous it may be in the long run. Indeed, in the public services the main problems of a change of currency will probably arise from the bulk and diversity of the transactions and the numerous staffs involved rather than from any innate difficulties in the change itself.

3. The large number of authorities which the public services-embrace (including, for example, some 1,500 local government bodies) means on the one hand that the impact of the task would be lessened by the spread of the work, but on the other hand that special attention would need to be paid to the steps necessary to achieve a proper degree of uniformity in the principles and practices of a transition.

4. Fortunately, although they are much diversified, local authorities are highly organized in associations representative of the different classes of authority. Further, the treasurers and accountants of local authorities, hospitals and nationalized boards form a closely organized profession. Consultation between the associations and among chartered municipal treasurers, and with other related professions would be close, and agreed practices would certainly be readily evolved for coping with decimalization, within any national regulations and directives.

#### The Desirability of a Change

5. A change to a decimal currency would be one of a balance of advantage rather than of complete superiority of a new to an old system. The Institute believes the the balance of advantage is significantly on the side a decimal currency and supports such a change.

6. If the decision is finally taken to decimalize currency, this will presumably be on the growthe change offers overall and continuing the nation. The Institute therefore sufferm problems and costs emphasized in a consi

should be made and, if so, which alternative offers the greater advantages. In particular, the Institute is sure that the resourcefulness and adaptability of both lay and professional members of the public services would enable them to cope adequately with any transitional problems with which they would be confronted on a change.

7. Nevertheless, the success of a transition will depend on attention to detail, and any change will be much facilitated by the ingenuity with which the new system is designed and its introduction organized.

#### The System Proposed

8. The use of an octonary or a duodecimal system is being canvassed as an alternative to a decimal system. While the significance of the arguments used is recognized (and in particular that an arithmetical basis of eight facilitates the use of electronic computers), the Institute believes that a fundamental change of the arithmetical basis of this kind is not practicable, and that the change in currency to be made should be to a decimal system.

9. The Institute is satisfied that a unit with a hundred sub-units – the cent system – is preferable to a unit with a thousand sub-divisions – the mille system. This again is a matter of strong balance of advantage.

10. The cent system is that in common use in other countries using the decimal system, and as one of the reasons for a change is to facilitate international financial transactions, this argues strongly in favour of a similar system in this country.

11. The cent system also lend easier notation in the great by this extent will be more

12. Less importantly an easier basis for becomes 1.45 under 0.725 under the mil

13. The Joint Reg. Association and of recommended in opinion generally a basis. A consideration the joint registerling interpretention.

of change-over in the retention of the name 'pound'.

15. Because of the enormous frequency both in speech, writing, and machine use, of the symbols representing a currency, simplicity in the name and clarity in the symbols used are of great importance. Thus, for example, the word 'pound' has in this respect an advantage over the use of the word 'sovereign'.

16. There is little difference from this point of view between the words 'cent' and 'penny'. If the traditional basis is to be retained, a new pound of 10s present value, with one hundred new pence would be simple and logical, but for the purpose of this memorandum the term 'unit' is used for the main unit of currency equivalent to 10s and 'cent' for the hundredth division of this 'unit', the symbols being U and c.

#### The Change-over

17. Coins will be struck with the new names and values, but, apart from the penny and the halfpenny, there should be no difficulty in the use of dual currency for a transitional period, because notes and other coins now in use will have an equivalent under the suggested decimal U/c system. Thus:

£	s	d	-		In Units	In cents
5	0	0	note eq	uivalent to	10	1,000
I	0	0	,,	,,	2	200
	10	0	,,	,,	I	100
	2	6	,,	**	0.22	25
	2	0	,,	,,	0.2	. 20
	1	0	,,	,,	0.1	10
		6	"	"	0.02	5
		3	,,	,,	0.022	21/2
N	ew	coin	,,,	,,	0.01	. 1

18. The Institute consider that a  $\frac{1}{2}$  cent coin is unlikely to be necessary and that the abandonment of the halfpenny should coincide with the change-over. Although the 3d piece could continue to be used as a direct equivalent to  $2\frac{1}{2}$  cents, it is suggested that the need for a coin of this denomination should be reviewed after an experimental period. The inclusion of notes for 1, 2, 5 and 10 Units would

cash handling generally.

much smaller and lighter
eful coin. No doubt the
consideration of the
minations.

ht to 1.2 pence, will but the number of private ownership, 3d or 6d is rapidly

ng present coins
wher the penny,
one cent,
ce. This

and convert old ones, particularly the more complex types. A transition period after the appointed day would also be needed, for which a maximum of twelve months seems appropriate. This period will be needed to complete the modification of accounting machines, cash registers, and coin operated machines, and for the adjustment of debts outstanding at the appointed day, and other problems of accountancy. Public authorities (like the banks) would begin to use the new currency in all reports and publications immediately following the appointed day.

23. On balance, the change-over would be most convenient if on April 1st, to fit the financial year of most local authorities and most organizations; alternatively, April 6th would coincide with the start of the Government financial year. There is, however, by no means

uniformity in year-end dates.

#### **Practical Points**

#### (a) Machines

24. Machines are in extremely widespread use in public authorities. The main practical difficulty will arise in the conversion of many of these to the new system. There has not been time to make even a pilot census of the costs and other problems involved in these conversions, but if it were thought essential, it would be possible to make such a survey in due course. There would, however, be difficulty in attempting more than a pilot survey owing to the great variety of machines in operation.

25. There are three considerations which will affect

the use of machines:

(a) Many of the more complex and expensive machines can already cope either with sterling or decimals, and some will indeed already cope more readily with decimals.

(b) Many machines have a sufficiently large capacity to permit the abandonment of the s d facilities, without material inconvenience during the remainder of their lives; machines which have an inadequate capacity should be given priority in conversion.

(c) Many machines will have only a short life which will not justify conversion, and for others slight

deferment of renewal will be possible.

26. The change-over will probably therefore create less difficulty with local authority machines than might be expected. Almost certainly the cent system, needing only two columns, would create less need for conversion than the mille system needing three, even though the units of the new currency would tend to use more digits in the pounds columns than are used at present.

27. Various classes of machines in use by public authorities are considered in the appendix to this

memorandum.

28. A system of priorities for conversion will need to be established and the conversion will require careful organization. Makeshift methods can be evolved to lessen the peak load of conversion. For example, wage reparation accounting machines can continue in use or the change-over for a short time on the old currency the manual conversion of the 'net amount due' in to the new currency each week. Many make-ices will certainly suggest themselves as the lop so that the impact of change will be than but which always arises on a machine system, or

ard system.

#### (b) General Administration

29. Most of the transitional problems will not be peculiar to the public services and standard codes of conversion and standard rules on general matters are called for. For example, a system of conversion of wage rates where fractions of a penny are at present common, will need to be introduced for general application, and a national rule will be needed to deal with the circumstances which would arise if the appointed day cuts

across a pay period.

30. Conversion scales will be needed for gas and electricity tariffs and for the multitude of rents and tariffs used by local authorities, but the issues involved are similar to those raised in changes in price bases generally. No particular difficulty is foreseen. Those concerned may take the opportunity of conversion to simplify wage rates now employing three decimal places of a penny, and tariffs which may have been built up piecemeal over long periods; but too much 'revision' as distinct from 'straight conversion' will add to the difficulties and misunderstandings of the conversion period.

31. No doubt the general law will provide that loans and other debts outstanding on the basis of the old currency shall be converted and made repayable on

the new basis.

32. Schools will have a short-term problem in the conversion of textbooks for which a period of two years

may not be sufficient.

33. Most stocks of stationery will be useable after conversion, so that new stationery can be introduced gradually. The planning and stocking of new stationery and the running down of old stocks will be part of the introductory planning.

#### Compensation

34. Whether public authorities should seek compensation from the Government for machine conversions is mainly a matter of policy to be settled by the associations of local authorities and by the public boards. It is possible that the procedure to be adopted in the case of commerce and industry should have some bearing on this point, but the following reasons are put forward in favour of the suggestion that compensation should not be claimed by anyone.

(a) Costs of conversion will be offset by the gain from

the simplifications of decimalization;

(b) Costs of conversion will be distributed broadly in proportion to ability to meet them; the larger organizations are on the whole more highly mechanized and while having the greater costs, will have the greater resources;

(c) Detailed claims, their audit, and the machinery for settlement are hardly justified in a nonrecurring transfer of this sort between public funds, or in private enterprise when the costs of conversion will be a charge against taxable profits;

(d) If compensation is not paid, greater forbearance and ingenuity will tend to be exercised in 'making

do' without modification.

#### Conclusion

35. In short, the Institute see little of especial application to the public services in the decimalization of the currency which is likely to cause more than shortterm transitional disturbance. There is nothing to be gained at this point by elaborating on problems of detail with which local authorities and the other officers will be able to deal adequa-

36. Within an adequate period for pred twelve months' transition, all but minor r will be assimilated.

37. The real issue is whether the change made, and if so, the basis which should be adopted Institute is clear on these two points: first, that balance of advantage is in favour of a change, an

second, that the balance of advantage is in favour of the 10s/cent system. In selecting the terms and symbols to be adopted, attention should be directed towards the need for simplicity. Similarly, over-elaboration of the

transitional arrangements should be avoided.

#### Appendix

The following are the main types of machines in use by public authorities:

(i) Electronic machines. Generally these machines will not require modification. Certain parts of the machine will cease to be used but the capacity of the registers will be increased by using the decimal scale.

(ii) Punched-card equipment. Only tabulators are affected. The newer type could be used without conversion, though counter capacity would be slightly reduced, because the sterling counting mechanisms would become redundant, but as a permanent feature they will need modification.

Older type tabulators with fixed counters will create more difficulty, because they will suffer a greater restriction in counter capacity; modification of these

will be more urgently necessary.

(iii) Master packs and files of punched cards. Much work will be involved in amending master files of punched cards. These can be amended mechanically by using an electronic calculator or possibly by other automatic means (e.g. 'ready reckoner' packs). Magnetic tape presents no problem of conversion.

(iv) Desk calculators. Many of these would be little affected as keyboard capacity is such that for nearly all work the shilling and pence positions can be ignored. A machine having a long residual life might need to be

modified but not as a matter of urgency.

(v) Keyboard accounting machines. Ledger posting and wages 'purpose built' machines will require con-

version with priority.

(vi) Desk listing machines. Most 'full keyboard, fixed position' machines will not be able to spare two of the pound positions for cents, without unduly limiting the columns available for the main units and will require

(vii) Cash registers and receipting machines. These are in widespread use in local authorities. The printing and adding mechanism will need modification without

much delay.

(viii) 'Addressing' equipment (embossing and printing machines). The machines do not need modification, but the embossed or stencilled plates used on them, many of which contain financial details, will generally cause a problem as the process of alteration is a lengthy one.

(ix) Cheque writing machines. These will need slight

modification to the names of the new currency.

(x) Other machines which may need modification, depending on the revised arrangements are coincounting machines, ticket issuing machines, slot machines, postal and insurance franking machines.

## THE INSTITUTE OF CHARTERED OUNTANTS IN ENGLAND AND WALES

PÉCIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, August 1st, 1962, at the Hall of the Institute, Moorgate Place, London EC2, there were present:

Moorgate Place, London EC2, there were present:

Mr Percy F. Carpenter, President, in the Chair; Mr Robert P. Winter, C.B.E., M.C., Vice-President; Messrs J. Ainsworth, C.B.E., J. F. Allan, C. Percy Barrowcliff, W. L. Barrows, T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.B.E., Sir William Carrington, Messrs G. T. E. Chamberlain, D. A. Clarke, J. Clayton, C. Croxton-Smith, E. Hay Davison, W. G. Densem, S. Dixon, W. W. Fea, J. Godfrey, G. G. Goult, P. F. Granger, L. C. Hawkins, J. S. Heaton, D. V. House, J. A. Jackson, H. O. Johnson, Sir William Lawson, C.B.E., Messrs H. L. Layton, R. B. Leech, M.B.E., E. N. Macdonald, D.F.C., R. McNeil, J. H. Mann, M.B.E., R. P. Matthews, W. Bertram Nelson, C.B.E., W. E. Parker, C.B.E., S. J. Pears, C. U. Peat, M.C., F. E. Price, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs R. G. Slack, J. E. Talbot, A. G. Thomas, A. H. Walton, F. J. Weeks, M. Wheatley Jones, E. F. G. Whinney, J. C. Montgomery Williams, E. K. Wright, Sir Richard Yeabsley, C.B.E.

#### Chairmen and Vice-Chairmen of Committees

The Secretary reported the appointment of the following Chairmen and Vice-Chairmen of Committees for the ensuing year:

Consultative Committee of Members in Commerce and Industry Chairman, Mr W. W. Fea; Vice-Chairman, Mr J. Clayton.

Disciplinary

Chairman, Sir Harold Gillett; Vice-Chairman, Mr T. A. Hamilton Baynes.

Library
Chairman, Mr D. A. Clarke; Vice-Chairman, Mr J. H. Bell.

Overseas Relations

Chairman, Sir Thomas Robson; Vice-Chairman, Mr S. J. Pears.

P. D. Leake

Chairman, Mr W. L. Barrows.

Relations with the Universities Chairman, Mr Bertram Nelson.

#### The Accounts and Audit of Friendly Societies and Industrial and Provident Societies

On the report of the Parliamentary and Law Committee, following consideration of a memorandum submitted by the Taxation and Research Committee, the Council approved a memorandum on 'The Accounts and Audit of Friendly and Industrial and Provident Societies' for submission to the Chancellor of the Exchequer.

#### Bankruptcy: Remuneration for Assisting a Debtor

Representations have been made to the Board of Trade about the remuneration allowed by official receivers when members assist debtors in preparing their statements of affairs in bankruptcy. The Council is pleased to state that the Inspector-General in Bankruptcy has brought the representations to the notice of the official receivers. Clarification of the position has been reached in the following terms.

The Board of Trade emphasize that what assistance should be given and what expense may be allowed from the debtor's assets (subject to prior charges) must lie in the discretion of the official receiver. It will not usually be possible to determine in advance the precise extent of the work which it will be necessary to do to assist a debtor in preparing a statement of affairs. This will depend upon the state of the records and the complexity or otherwise of the debtor's financial position. Nevertheless the extent of the work to be done and the remuneration should be discussed and agreed in principle with the official receiver before the work is commenced. There should be further discussion if the member finds it necessary to seek an increase above the limit of expense which has been agreed. It is hoped that no difficulty will arise in agreeing suitable remuneration, either initially or on an application to exceed the limit, but if a member does encounter difficulty which he cannot resolve satisfactorily he may bring the matter to the notice of the Secretary of the Institute. It is understood that the Inspector-General would then consider any representations which the Institute may make. If representations were made at a later stage they might run up against the difficulty that the Inspector-General must not usurp the functions of the Court in relation to appeals against the decision of the official

The Treasury scale of fees for professional work carried out by firms of accountants for Government Departments does not as such apply to bankruptcy work, but it is a useful guide in determining appropriate remuneration for the work involved in assisting a debtor in preparing a statement of affairs which has been done in agreement with the official receiver. Official receivers are aware of this scale but the Inspector-General has taken the present occasion to remind them about it. The current Treasury scale became operative from September 1st, 1956. Any change in the scale will be brought to the notice of official receivers

by the Inspector-General.

#### Advertisements for Staff

In view of the representations which have been made to, the Council since the publication in April 1960 of the statement under the above heading (section E3, paragraphs 10 and 11 of the *Members' Handbook*) the Council is satisfied that more specific guidance is needed. The Council has therefore decided to withdraw the statement published in April 1960 and substitute the following:

#### Advertisements for Staff

1. A considerable number of inquiries has been received at the Institute as to the propriety of the publication by members or their firms under their own names of advertisements for staff which are presented in such a manner that in giving particulars of the duties for which applicants are required the advertisements could be considered to approach closely to advertising the activities of the members or their firms.

- 2. The Council recognizes that the attraction of suitably qualified staff of necessity requires adequate description of the functions to be performed and that, particularly in times of intense competition for accountancy staff by commercial concerns, this description can only be effective in advertisements for staff if they are made in terms and printed in type which will attract the attention of suitable applicants. Nevertheless the Council emphasizes that an advertisement for staff for the member's own office should conform to a high standard of professional good taste and that the position in which the name and address of the member or firm is printed and the form and content of the advertisement should not be such as to warrant a suggestion that an attempt is being made to bring the activities of the member or firm concerned to the notice of the public. In general the same considerations apply to advertisements on behalf of associated firms or clients and to advertisements where a box number is used.
- 3. The following points should particularly be noted

by a member who advertises for staff for himself or for his firm:

- (i) There is no objection to the inclusion of an advertisement for staff in display or semi-display form in a page which contains other staff advertisements in similar form, provided that it conforms to the general principles mentioned above and to the points set out below.
- (ii) The size of advertisements should be kept within modest dimensions not exceeding two columns in width. The whole of the body of the advertisement including the name of the firm should be in type of modest and uniform boldness. In a display or semidisplay advertisement, however, headings indicating the nature of the staff required may be in capitals or bold type.
- (iii) The name and address of the member or firm should not be given undue prominence. It should appear not more than once in the advertisement and in all display or semi-display advertisements should be within the body of the text (that is, not separated or inset on a separate line as heading or otherwise) in the same size and boldness of type as the body of the advertisement.
- (iv) The name of the member or firm may be printed in capitals or in bold type at the beginning of classified advertisements for staff in journals in which, as in Accountancy and The Accountant, capitals or bold type in the first lines of such advertisements are standard form.
- (v) The use in display or semi-display advertisements of headings which do not refer to staff vacancies may be open to misconstruction. Such headings as 'Management accountancy', 'Management consultancy', 'Taxation' or 'Audits' should be accompanied by the word 'Staff' or a similar word to make it clear that the advertisement is addressed to the possible candidates for staff vacancies.
- (vi) In his own interest a member proposing to issue an advertisement in display or semi-display form would be well advised to ask for a proof to be submitted to him before the advertisement is issued so that he may ascertain whether his instructions have been followed.
- 4. A member who is in any doubt concerning the propriety or form of an advertisement is advised to seek the advice of the Secretary.

#### Advertisements by Members seeking Employment or Professional Work

The Council considers it necessary to restate the general rule, which has been of long standing in this country, that members may not advertise in a manner which could be interpreted as offering to undertake professional work (see paragraph 1 of section E3 of the Members' Handbook).

The only circumstances in which advertisements for work of an accountancy nature can be permitted are those in which a member is seeking salaried employment, whether full-time or part-time, which is to be his sole occupation.

Advertisements by members for sub-contract or agency work are not permissible.

#### Examination Results - May 1962

The results of the Institute examinations held in May 1962, were as follows:

more as rome			-		Passed	Failed	Total
Preliminary					54	153	207
Intermediate	• •			• •	1,015	1,047	2,062
Final	• •	• •	• •	• •	814	806	1,620
					1,883	2,006	3,889

(The names of the successful candidates and of the recipients of prizes and certificates of merit will be published in next week's issue.)

#### Articles and Examinati

The following applications under various b
to articles and examinations have been gran
during the six months ended June 30th, 1962:

Bye-iaw 51.	waiver or pro	escribed p	rovisions
in articles		• •	
Bye-law 57:	Permission	to follow	another
business or	occupation v	while und	er articles
to the lin	nited extent	specified	l in the

application	$\mathbf{n}$	• •			
Bye-law 58					
months i					
other suit	able o	rganizati	on dı	ıring art	icled
service					

Bye-law 6.	r: Re	duction	in s	ervice	under
articles					
Bye-law 63	(a):	Exempt	ion fr	om the	Pre-
liminary	exam	ination	for fo	rmer re	gular
officers					٠.

Bye-law 63 (	c): Reduction	on in	service	under
articles for	former reg	ular of	ficers	• •
Bye-law 79:	Exemption	from	the P	relimi-

		ination					
exper	ience	in a mer	nber	r's of	fice		
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Bye-law 86 (a): Permission to sit the Final
examination, after completion of articled
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#### Registration of Articles

The Secretary reported the registration of ninety-four articles of clerkship during the last month, the total number since January 1st, 1962, being 1,208.

#### Report of the Committee on Education and Training

1. In paragraph 63 of the Council's report for 1961 the Council made the following statement regarding the report of the Committee on Education and Training:

"The Council has adopted in principle many of the recommendations made in the report and others are still under consideration. The relevant committees are considering the financial implications and, where applicable, the procedure and time-table for implementation. There will be consequential alterations to the Royal Charters and bye-laws. Meanwhile announcements will be made from time to time by the Council but no member, student or prospective student should take any course of action based on the assumption that a particular recommendation will be implemented."

2. The Council has authorized the publication of this statement of the decisions which it has reached on certain of the recommendations and the steps which it proposes to take to implement those decisions. The Council still has under consideration other recommendations of the report and will make further statements in due course.

3. Where a reference is made in this statement to a recommendation in the report of the Committee on Education and Training the number of the recommendation is given in brackets.

4. In authorizing the publication of this statement the Council emphasises that in the cases marked with an asterisk amendments to the supplemental Royal Charter and/or the bye-laws will be required and that these will be submitted to members in the form of resolutions at a special meeting early in 1963. If these resolutions are adopted by members the amendments will be subject to approval by the Privy Council. Where, therefore, decisions are dependent upon such amendments, no member or student or prospective student should take any course of action based on the assumption that these particular recommendations will be implemented.

cil has accepted recommendation (1) that embership of the Institute should continue upon service under articles with a member in the United Kingdom. Iso accepted recommendation (26) that transfers

should be permitted as at present but should not cated. The Council intends, however, to propose to hers an amendment of the bye-laws to permit secondate to the office of another member in practice—see aragraph 17 below.

#### Quota of articled clerks

7. The Council has accepted recommendation (16) and accordingly does not propose to recommend any change in bye-law 56 under which a practising member may normally have up to four articled clerks at any one time. This bye-law will continue to be interpreted so that it does not confer on a practising member a prescriptive right to take an articled clerk.

#### Registration of articles

\*8. The Council already has power by bye-law to refuse to register articles. It has accepted recommendation (2) and intends to propose to members an extension of the bye-law to permit it to withdraw the registration of articles previously registered. It is intended that the revised bye-law shall provide for an appeal to the Council by any member, articled clerk or prospective articled clerk against whom a decision is taken.

#### Probationary period of service

9. The Council has accepted recommendation (11) and intends to introduce a compulsory probationary period for the first six months of articled service. It is intended to include as a prescribed provision in articles a covenant governing the detailed rights and obligations of the parties with regard to this period of probation.

#### Settlement of disputes

\*10. The Council has accepted recommendation (12) and intends to propose to members a bye-law to provide that any dispute between the parties to articles arising from a provision therein prescribed by the Council may be referred to the Council by any of the parties for a decision which shall bind the parties.

#### Term of service under articles

- \*11. The Council has accepted recommendations (23) and (24) that the basic term of service under articles shall remain at five years and that, as at present, graduates of universities in the United Kingdom be granted a reduction in service to three years. The Council has also accepted in substance recommendation (25) and therefore intends to propose to members amendments to the supplemental Royal Charter and bye-laws to provide that the following may be granted a reduction in service to four years:
  - (a) certain graduates of universities outside the United Kingdom – on conditions which will be the subject of a later statement;
  - (b) those who have both:
    - (i) obtained at examinations held before entry into articles at least five passes, including at least two at advanced level, in the general certificate of education examinations recognized by the Council; for this purpose the Council will limit the acceptance of certain subjects or combination of subjects in accordance with the regulations relating to the standard required for entry into articles see the appendix, notes I, II, IV and V;

#### and

(ii) entered into articles after attaining the age of 18 years. 12. The second of these conditions has been substituted for that part of recommendation (25) which proposed that an applicant should have remained at school until the end of the term in which he reached the age of 17½ years. It remains the objective of the Council to encourage students to continue their education for a full sixth form course before commencing service under articles and thus to raise the general educational standard of those who enter into articles. The implementation of recommendation (25) on the revised basis as set out in paragraph 11 above should substantially achieve this objective.

\*13. The Council further proposes, in the event of the adoption of the alterations to the supplemental Royal Charter and bye-laws, to permit the endorsement, with the consent of all parties thereto, of articles previously executed and registered so that clerks already serving under articles who satisfy the provisions set out in paragraph 11 above may be granted a reduction in service to four years.

\*14. The Council intends to propose to members an amendment of bye-law 61 which relates to a reduction in service for those with not less than ten years' experience as defined in that bye-law. Details of the proposed amendment are given in paragraphs 21 and 22 below.

#### University degree courses

15. The Council wishes to increase the proportion of university graduates of all faculties who are admitted to membership of the Institute and to investigate ways in which it may achieve closer links with the universities. It was with this in mind that in March 1962 the Council announced the appointment of the Committee on Relations with the Universities.

\*16. The Council has accepted recommendation (42) that an articled clerk who takes a degree course approved by the Council under bye-law 62 should not be allowed to count as part of his service under articles any periods spent in the principal's office during university vacations. The Council endorses the view that experience obtained in this way in short and infrequent periods in the office is of limited value, and intends to propose to members alterations in the bye-laws to give effect to this recommendation.

#### Secondment during articled service

\*17. The Council has accepted recommendations (27), (28) and (30). It does not propose to recommend any change in the arrangements under which an articled clerk may be permitted, during his service under articles, to spend up to six months in an industrial, commercial or other suitable organization approved by the Council. It intends however to propose to members an amendment to the bye-laws to allow an articled clerk, in accordance with recommendation (27), to spend up to six months during his service under articles on the business in the United Kingdom of another member in practice so that the articled clerk may broaden his experience.

#### Theoretical training

18. Recommendation (46) proposed that inquiries should be made into the feasibility and cost of providing certain introductory courses for articled clerks. The Council has already announced that in view of the increasing part being played by technical and commercial colleges within the educational system it has decided to examine the scope for assistance from such colleges on a wider scale than is envisaged in the report.

envisaged in the report.

19. The Council has accepted recommendation (58) that students' societies should continue to provide for the wider professional education of articled clerks, including the development of a corporate professional sense. The Council hopes that students' societies will increasingly be associated with the educational developments referred to in paragraph 18 above.

<sup>\*</sup> See paragraph 4.

20. The Council has accepted recommendation (57) and will in due course arrange the distribution to all students who pass or who are exempted from the Intermediate examination of a booklet on the structure and functions of the Institute, the Council and its committees, together with those sections of the Members' Handbook and any other publications which are relevant to preparation for the Final examination and admission to membership of the

#### Articled clerks with no less than ten years' experience

\*21. Bye-law 79 permits the Council to grant exemption from the Preliminary examination to a person of not less than 30 years of age, who has had at least ten years' experience as a clerk to a member or members in practice. The Council has accepted recommendation (21) which proposes

certain modifications to that bye-law.
\*22. In addition, bye-law 61 and bye-law 85 (b) permit the Council to grant to those who have had at least ten years' experience as defined in those bye-laws a reduction of up to two years in the term of service under articles and exemption from the Intermediate examination respectively. It is intended to propose to members amendments to all three bye-laws along the lines of recommendation (21) so that in all cases the applicant shall be at least 27 years of age and for ten years after the age of 17 years shall have been continuously in the employment of a member or members in practice, whether in the United Kingdom or elsewhere, or shall have had such other experience for at least ten years as the Council may deem acceptable.

#### Preliminary examination

23. The Council has accepted recommendations (17) and (18) that the Preliminary examination should cease to be held and that instead the minimum standard of general education required for entry into articles should be defined by reference to the general certificate of education examina-

24. The Preliminary examination will be held in November 1962, May 1963 and November 1963, and will then

#### Standard for entry into articles

25. As is at present the case, passes at the appropriate standard in other examinations recognized by the Council will be accepted as equivalent to passes at ordinary and advanced level in the general certificate of education

26. The Council has accepted with modifications recommendations (19) and (20) setting out the conditions under which passes at recognized examinations will be accepted for the purpose of satisfying the minimum standard required for entry into articles. The recognized examinations and revised conditions are set out in the appendix to this

27. Any person who satisfies the revised conditions may make the necessary application at any time after October 31st, 1962. Any person who satisfies the existing conditions by virtue of passes obtained at examinations held in or before the summer of 1963 will remain eligible irrespective of the date on which application is made.

\*28. The Council intends to propose to members an amendment of bye-law 79, which at present relates to persons of not less than 30 years of age with not less than ten years' experience as a clerk to a member or members of the Institute in practice. Details of the proposed amend-

ment are given in paragraphs 21 and 22 above.

#### Examinations

29. The Council has accepted recommendation (32) that the Intermediate and Final examinations should continue to be so framed as:

(a) not to encourage specialization during articles;

(b) to provide so far as possible a test of

30. Recommendation (34) proposed a choice in certain papers at the Final examination. has accepted this in principle and has invited the tion Committee to consider its implementation papers at both the Intermediate and Final examina

#### Intermediate examination

31. The Council has accepted the substance of recommendation (37) relating to the revision of the Intermediate examination, and the new examination will be held in the following papers:

								Hours
Book-keepi	ng and	Accour	nts I			• •		3
Book-keepi	ng and	Accour	its II			• •	• •	3
Auditing_			• •	• •	• •	• •		3
General Pa	per	• •	• •	• •	• •	• •	• •	3
								_
								12
								_

Details will be published in November 1962 of the syllabus for the revised Intermediate examination, and these will be incorporated in the edition of the booklet General Information and Syllabus of Examinations to be published during that month.

\*32. Subject to the allowance of the necessary alterations to the supplemental Royal Charter and bye-laws, it is intended to implement recommendations (38), (40) and

(41) as follows:

- (a) that a clerk serving for more than three years under articles shall first be permitted to sit for the new Intermediate examination not earlier than in the seventeenth calendar month following the date of commencing service under articles (the eleventh calendar month for those serving for three years);
- (b) that the new Intermediate examination be held in March and September in each year;
- that the first date for the new Intermediate examination shall be September 1964;
- (d) that the last date for the present Intermediate exami-
- nation shall be May 1965; (e) that a clerk entering into articles before June 1963, may elect:

either

(i) to sit for the present Intermediate examination under the existing rules of eligibility until the last examination in May 1965;

(ii) to sit for the new Intermediate examination under the new rules of eligibility from the date of the first new examination in September 1964

(f) that a clerk entering into articles after May 1963 shall be required to sit for the new Intermediate

examination;

(g) that a clerk who is unsuccessful at the present Intermediate examination may be permitted, if he so wishes, to sit subsequently for the new Intermediate examination;

(h) that a clerk who sits for the new Intermediate examination shall not subsequently be permitted to sit for the present Intermediate examination;

- (i) that a clerk who is successful at the present Intermediate examination may be permitted, if he so wishes, to sit subsequently for the new Final examination;
- (j) that a clerk who sits for the new Intermediate examination shall be required to sit for the new Final examination;
- (k) that, except at the Council's discretion, a clerk entering into articles after May 1963, shall not be permitted to sit for any examination after the expiry of his articles unless he has passed the Intermediate examination during articles or has been exempted therefrom.

<sup>\*</sup> See paragraph 4

ouncil has accepted recommendation (33) the extension of the syllabus for the Final and these extensions will be incorporated in vllabus

Council intends to propose to members that ments be made to the supplemental Royal Charter bye-laws to provide that the Final examination shall, m the dates given below, be divided into two parts. If he proposal is adopted by members and allowed by the Privy Council in due course, the two parts of the examination will be divided as follows:

Part I							Hours
Advanced Accou	nting	Ι					3
Taxation I							
English Law I					• •		3 3 3
English Law II	• •	• •	• •		• •	• •	3
							12
Part II							Hours
Advanced Accou							3
Advanced Accou	nting :	III			·		3
Auditing		• •			• •		3 3 3
Taxation II			• •	• •		• •	3
_General Paper		• •	• •	• •	• •	• •	3
							*******
							15
							turns.

Details will be published in November 1962 of the syllabus for the proposed revised Final examination, and these will be incorporated in the edition of the booklet General Information and Syllabus of Examinations to be published during that month.

\*35. Subject to the allowance of the necessary alterations to the supplemental Royal Charter and bye-laws, it is intended to implement recommendation (38) as follows:

- (a) that both parts of the Final examination be held in May and November of each year and not as stated in recommendation (36)
- (b) that the first dates for the new Final examination shall be as follows:

Part I - May 1965

Part II - November 1965;

- (c) that the last date for the present Final examination shall be November 1966;
- (d) that a clerk shall not sit for any part of the Final examination until he has passed or been exempted from the Intermediate examination;
- (e) that a clerk who has been granted exemption from the Intermediate examination shall not be permitted to sit for Part I of the Final examination earlier than the eleventh calendar month following that in which service under articles commenced;
- (f) that a clerk shall not sit for Part II of the Final examination before sitting for Part I, although he may sit for these two parts at the same session;
- (g) that no clerk be permitted to sit for Part II of the Final examination at a date earlier than within the last six months of his service under articles;
- (h) that a clerk who sits for both parts of the Final examination at the same session and who is successful in one part only may sit at any later examination for whichever part of the Final examination he has not passed at that session;
- (i) that a clerk who is eligible under the existing rules to sit for the present Final examination may unless he is precluded by any of the provisions in this paragraph and in paragraph 32 elect to do so until the last examination in November 1966;
- (j) that a clerk who is unsuccessful at the present Final examination, may be permitted, if he so wishes, to sit subsequently for the new Final examination
- (k) that a clerk sitting for any part of the new Final examination shall not subsequently be permitted to sit for the present Final examination.

36. The Council has not accepted the proposal contained in recommendation (39) that in relation to each part of the Final examination there should be discretion to allow a candidate who would have passed the relevant part but for failure in one paper to be re-examined in that paper alone at a subsequent sitting.

37. Recommendations (55) and (56) relate to the published syllabus for the new papers in Part II of the Final examination and to the issue of a reading list for the Advanced Accounting III paper and for the General Paper. The Council endorses these recommendations in principle only in so far as it is necessary to give some indication of the scope of such new papers and that the issue of a reading list should be for a limited period only until the syllabus is sufficiently established.

Details will be published in November 1962 of the implementation of these recommendations and they will be incorporated in the edition of the booklet General Information and Syllabus of Examinations to be published during that month.

#### Examination statistics

38. The Council has requested the Examination Committee to consider the extent to which from time to time publication should be made of statistics of performance in the Institute's examinations as proposed in recommenda-tion (52). It has also asked the Examination Committee to consider the proposals in recommendation (53) relating to results in individual papers but confirms that information relating to such results should not normally be published.

#### Review of progress of articled clerks

39. The Council intends to arrange for the recording of the additional information referred to in recommendation (70) and in Appendix M of the report so that a regular review of the progress of articled clerks may be undertaken more readily.

#### Admission to membership

40. The Council has accepted recommendation (40) that a clerk should continue to be ineligible for admission to membership of the Institute unless and until:

(a) he has completed his service under articles;

(b) he has passed or been granted exemption from the Intermediate examination and has passed either the present Final examination or both parts of the new Final examination.

#### APPENDIX

The following shows the manner in which the revised regulations relating to the standard required for entry into articles will be reproduced in the booklet General Information and Syllabus of Examinations.

#### University Degree Examinations

The minimum standard shall be:

- (i) the final degree examination of any university in the United Kingdom; or
- (ii) the final degree examination of any other university approved for the purpose by the Council.

#### SCHOOL AND UNIVERSITY ENTRANCE EXAMINATIONS

(1) Examinations recognized General certificate of education School certificate Higher School certificate

of the United Kingdom examining bodies already recognized and set out in the current regulations

Matriculation Senior certificate (Northern Ireland) Scottish certificate of education Senior leaving certificate (Scotland)

Scottish leaving certificate

Preliminary examination of the Scottish Universities Entrance Board

<sup>\*</sup> See paragraph 4.

Previous examination (University of Cambridge)

Responsions (University of Oxford)

(Note. - An applicant may satisfy the conditions specified below by a combination of performances in any of the above examinations.)

#### (2) Standard of passes in the above examinations

(a) The following passes will be DISREGARDED:

(i) any pass in an alternative lower paper in a matriculation examination:

(ii) any pass below the standard of 'credit' in a school certificate examination:

(iii) any pass at ordinary level below the standard of 'credit' in the senior certificate examination of Northern Ireland;

(b) The following passes are regarded as being at ADVANCED level:

(i) any so described on a general certificate of education; (ii) any pass or higher standard in a principal subject

in a higher school certificate examination.

(c) All passes not referred to in (a) and (b) above are regarded as passes at ORDINARY level.

#### (3) Minimum number of passes required

The candidate must in any one or more of the above examinations have obtained passes which satisfy the requirements set out below:

Acceptable passes (see especially notes I and II below) which satisfy any one of the following conditions:

nu	inimum mber of passes	Level of passes required	Maximum number of sittings (see notes
(A)	Five	including TWO at the	III and VI) no limit
(B)	Six	including ONE at the advanced level	any three

Passes must be obtained in English language (see note IV) and in a mathematical subject (see notes II and V); if these particular passes have not been obtained within the number of passes and sittings referred to above they may be obtained as additional passes at earlier or later sittings.

ordinary level

#### Notes

(C) Six

I. Passes in craft or technical subjects (including account-

ing and book-keeping) are not acceptable.

II. Passes which are considered to involve an overlapping of syllabus or similarity of subject, whether at the same or at different levels, will be treated as being in one subject only. Two passes in mathematical subjects will normally be accepted if the syllabus of each is distinct from the other, e.g. 'mathematics' and 'additional mathematics' at ordinary level or two subjects, one at ordinary and one at advanced level. Similar considerations will apply to the acceptance of two passes in English subjects - see note IV.

III. A candidate may satisfy the conditions above by offering passes awarded by different examining bodies. Such passes cannot be accepted as having been obtained at one sitting unless the examinations at which they were awarded were held in the same term.

IV. A pass at advanced level in English or in English Literature or a pass in a Test in English or Use of English paper awarded by a recognized examining body will be accepted as a pass in English-Language.

A pass at ordinary level in English Literature, however, will not be accepted as a pass in English Language but will

be accepted as one of the other passes required. Two passes in English subjects will normally be accepted if the syllabus for each is distinct from the other (see note II), e.g. English Language and a Test in English paper.

V. Arithmetic, being part only of the subject of mathematics, will not be accepted alone.

VI. The passes on which a candidate relies under section

(3) above must have been obtained within the maximum number of sittings stated. The fact that a candidate has sat on other occasions will not prejudice an application.

#### Admissions to Membership

The following were admitted to membership of the

Roads, Robin Warner Stanwell, A.C.A., a1962; Garth House, High Street, Bognor Regis.

Sutton, Brian Hague, A.C.A., a1962; 8 Emmanuel Road, Southport.
Williams, Richard Juxon, B.Com., A.C.A., a1962; 163 King-

standing Road, Birmingham 22c.

#### Fellowship

The Council acceded to applications from six associates to become fellows under clause 6 of the supplemental Royal Charter.

#### Incorporated Accountant Member becoming an Associate

The Council acceded to an application from the following incorporated accountant member for election as associate under clause 6 of the scheme of integration referred to in clause 34 of the supplemental Royal Charter.

Edwards, Alan Frank, A.S.A.A., aS1953; with Cooper Brothers & Co, Abacus House, 33 Gutter Lane, Cheapside, London EC2.

#### **Members Commencing to Practise**

The Council received notice that the following members had commenced to practise:

Anstead, Charles Murray, F.C.A., aS1946; Hibbert, Sier, Woods & Co, Capel House, 54 New Broad Street, London EC2.

Beckett, Brian Charles John, A.C.A., 21958; \*Coopers & Lybrand and Bernard Gadd & Co, P.O. Box 5539, 234 Bay Street, Nassau,

Bexley, Ronald Bertram, F.C.A., aS1951; †Rawlinson & Hunter, 51 Green Street, and 147 New Bond Street, London W1, and at Hamilton, Bermuda.

Bharoocha, Mohamed Hashim, A.C.A., a1960; \*S. F. Ahmed & Co, Halim Mansion, Strand Road, Chittagong, East Pakistan.

Burgess, Alfred Leslie, A.C.A., aS1952; Hibbert, Sier, Woods & Co, Capel House, 54 New Broad Street, London EC2.

Coles (Miss), Barbara Elizabeth, A.C.A., a1961; Percy Coles & Co, 24 Exchange Road, Watford.

Copley, Arnold Dyson, F.C.A., a1948; †Price Waterhouse & Co, The Royal Exchange, Manchester 2.

Da Costa, Philip Walter, A.C.A., a1962; 19 Norcott Road, Stoke Newington, London N16.

Dovey, George Trevor Ieuan, A.C.A., a1959; Birch Grove, Dunwood, Romsey, Hants.

Gaggs, Bryan Geoffrey, A.C.A., a1957; \*Faletti, Knapp & Jarabin, 21e Canon Perdido Street, Santa Barbara, California, U.S.A. Garnett, Ronald, A.C.A., aS1956; \*Thos Jennett & Co, 4 Essendine Crescent, Sheffield 8.

a Indicates the year of admission to the Institute.

aS Indicates the year of admission to The Society of Incorporated Accountants.

§ Means 'incorporated accountant member.'

Firms not marked † or \* are composed wholly of members of the Institute.

- † Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and
- \* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.
- †† Against the name of a firm indicates that the firm includes an incorporated accountant member of the Institute and is composed wholly of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Gumbrell, Geoffrey William, A.C.A., a1954; Nevill, Hovey, Gardner & Co, 43 Church Road, Hove 3, Sussex, and at London.

Handley, Jack, A.C.A., a1952; 'Fern Dene', Savile Road, Halifax. Hargreaves, Edward George, F.C.A., a1950; E. G. Hargreaves & Co, 26 Spencer Street, Carlisle.

Henderson, Robert Cecil Roy, F.C.A., a1928; Miller, Strong & Co, 37-39 High Holborn, London WC1.

Hepworth, Peter Newton, A.C.A., a1953; Hepworth, Moulton & Co, 19 King Street, Wakefield.

Hetherington, Peter Andrew, A.C.A., a1955; †Rawlinson & Hunter, 51 Green Street, and 147 New Bond Street, London W1, and at Hamilton, Bermuda.

Hough, John Patrick, A.C.A., a1954; Robson, Morrow & Co, 4 Copthall Avenue, London EC2.

Khan, Riaz Ahmad, A.C.A., a1962; Riaz A. Khan & Co, 88 Disraeli Road, London SW15.

Kingdon, Samuel Leib, A.C.A., a1962; Harold Everett, Wreford & Co, Harford House, 103 Great Portland Street, London Wr.

Leon, Farrell Stanley, A.C.A., a1962; 124 Middleton Road, Crumpsall, Manchester 8.

MacDonald, Kenneth Lister, F.C.A., a1938; Wells-Smith, Jones & Co, 6 Figtree Lane, Sheffield 1.

Mawson, Henry James, A.C.A., a1959; 3 Danescourt Road, West Derby, Liverpool 12.

Miskin, Walter James, F.C.A., a1938; †Gill & Johnson and ††Deloitte, Plender, Gill & Johnson, P.O. Box 261, Mbeya, Tanganyika, and at Dar-es-Salaam, Iringa, Kampala, Mombasa and Nairobi.

Narielvala, Navroze Mancherji, A.S.A.A., a1960; \*S. R. Batliboi & Co, 1-B Old Post Office Street, Calcutta 1, and at Bombay and Ranchi.

Pearce, Donald Sutherland, A.C.A., aS1957; Wall & Humphries, I South Parade, Bath.

Pratt, Maurice Arthur, F.C.A., a1947; 3rd Floor, Norfolk House, Smallbrook Ringway, Birmingham 5.

Rodger, John Harley, A.C.A., a1959; Wells-Smith, Jones & Co, 6 Figtree Lane, Sheffield 1.

Simkins, Peter William, A.C.A., a1955; Allen, Baldry, Holman & Best, Prudential Buildings, Guildford, Surrey.

Sitaram, Govind, A.C.A., a1962; 5 Mitchell Close, Warren Road, Wilmington, Kent.

Smith, Peter William, A.C.A., a1952; Roffe, Swayne & Co, 70 High Street, Haslemere, Surrey, and at Godalming and London.

Spedding, Alan, B.A., F.C.A., a1940; †Gill & Johnson and ††Deloitte, Plender, Gill & Johnson, P.O. Box 1795, Mombasa, Kenya, and at Dar-es-Salaam, Iringa, Kampala, Mbeya and Nairobi.

Stevenson, Derek, A.C.A., a1961; 30 Tuscan Road, East Didsbury, Manchester 20.

Stubbs, Kenneth Garton, A.C.A., a1954; J. B. Hughes & Lloyd, 3 Fenwick Street, Liverpool 2.

Sykes, Raymond, A.C.A., aS1956; \*A. E. Bevan & Co, 10 Corve Street, Ludlow, Salop, and at Hereford.

Targett, Peter George, A.C.A., a1956; Robson, Morrow & Co, 4 Copthall Avenue, London EC2.

Tate, David Alfred, A.C.A., 21957; Caldwell & Braham, St Stephen's House, Westminster, London SW1.

White, Thomas, F.C.A., a1950; Duncan, Watson & Short, B22 The Temple, Dale Street, Liverpool 2.

Whiteman, Richard John, F.C.A., a1937; Cotterill, Kirk, Salt & Co, Sun Building, Bennett's Hill, Birmingham 2.

Wood, Malcolm William, A.C.A., a1952; Cotterill, Kirk, Salt & Co, Sun Building, Bennett's Hill, Birmingham 2.

#### Re-admission to Membership

Subject to payment of the amounts required by the Council three former members of the Institute were re-admitted to membership under bye-law 38.

#### Change of Name

The Secretary reported that the following changes of name have been made in the Institute's records:

Beecham, Eric Marx to Beecham, Eric Mark.

Cook, John Jeffrey to Jeffrey-Cook, John.

Green, Michael Howson to Howson-Green, Michael.

#### **Deaths of Members**

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Thomas Norman Baxendale, F.S.A.A., Leeds.

" John Norman Doran, A.C.A., Torquay.

,, Shakespeare Dyson, F.C.A., Mottram, Cheshire.

" John Parkinson Fare, F.C.A., Manchester.

,, William Henry Walter Greenslade, F.C.A., London.

Miss Marjorie Laycock, A.C.A., Dewsbury.

Mr Kenneth Lishman, F.C.A., Harrogate.

,, Richard Buxton Morrish, T.D., M.A., F.C.A., London.

.. John Boustead Saint, F.C.A., Carlisle,

,, Walter Roland Tracy Whatmore, M.C., B.A., F.C.A., London.

#### 'Fleming Birch' Prizes

The Council noted with gratitude the generous gift by Mr T. Fleming Birch, F.C.A., of £1,000 to The Institute Prize Trust Fund to provide examination prizes in the area of The Leicestershire and Northamptonshire Society of Chartered Accountants.

Mr Fleming Birch was a member of the Council from

1934 to 1952.

#### The Small Practitioner Inquiry

The replies received through district societies in connection with the small practitioner inquiry indicate a willingness on the part of members to give information on an anonymous basis to the Institute on matters such as fees, remuneration and charging rates.

The Council has decided that a questionnaire should now be addressed to all practising members on such matters and intends to arrange for its distribution as soon as

possible.

#### Institute Staff

The Council decided:

- (1) that upon the retirement of the Secretary, Mr Alan S. MacIver, C.B.E., M.C., B.A., on October 31st, 1962, Mr F. M. Wilkinson, F.C.A., and Mr C. A. Evan-Jones, M.B.E., be appointed Joint Secretaries with effect from November 1st, 1962;
- (2) that Miss M. J. D. Reynolds, B.A., an Assistant Secretary who joined the staff on September 1st, 1947, be appointed an Under Secretary with effect from November 1st, 1962.

#### Presentation to Mr and Mrs A. S. MacIver

Sir Thomas B. Robson: Mr President, we welcome Mrs MacIver among us on this unique occasion.

We welcome also a number of former members of the Council who are here with us. [The former members of the Council who were present were Sir Harold Barton, Sir Bernhard Binder, Mr W. G. Campbell, Sir Harold Howitt, Sir Russell Kettle and Mr C. M. Strachan.] We have received messages of regret from others and from some of the present members of the Council who are obliged by

circumstances to be absent from this meeting. They would all like to express their apologies to Mrs MacIver for their absence and to join in our good wishes to herself and her husband.

When emotions are involved, as they are here, it is difficult for us to find words in which to express ourselves; and where I am concerned even if I have the right words, they are apt to get stuck on my tongue before they can be uttered.

This is very much the state of my affairs today. Mr and Mrs MacIver are dear friends of us all. (Hear, hear.) It is as their friends that we say how sorry we are that Mr MacIver will soon be leaving us officially, though our friendship and affection for them both will always continue. (Hear, hear.)

It would merely be stating the obvious to say that Alan MacIver has enhanced the prestige of the Institute throughout these islands and wherever he has gone on its behalf overseas. These places and the journeys to them have been innumerable and Mrs MacIver has made the journeys possible, going with him when her presence was desired in the Institute's interests, staying behind when the need

of the situation decreed otherwise.

No past president in the period since 1949 could have carried out his task without the help of these two people. (Hear, hear.) A president may well feel pleased with his own efforts during his single year of office, but the Secretary of the Institute who accompanies him on his extra mural activities as well as making separate expeditions of his own has to go on doing this year after year, learning the weaknesses and strong points of each successive occupant of the presidential chair and helping him to correct the former whilst making the most of the latter for the benefit of the Institute, winning the hearts of the members of our Institute and of other bodies as a permanent ambassador of goodwill from this Council, collecting impressions, conveying greetings, explaining policies, advising and helping in that unobtrusive atmosphere of friendship which it is his peculiar ability to create. Alan MacIver has these qualities in unique degree.

And as for his wife-we cannot tell her or him all that we feel about her. But this meeting would be incomplete without both of them. We are delighted that she has faced the ordeal of being a female Daniel in this den in which the lions are assembled in Council. Everyone of us will refuse to say goodbye to the MacIvers, but we want to give them on this occasion some tangible tokens of our affection in which have joined all those who now are or during Mr MacIver's secretaryship of the Institute have been members of the Council. The gifts have been selected by Mrs MacIver with some help from her husband and a little from

myself, and they are on the table before you.

They include Georgian silver articles made in London between 1800 and 1826, comprising a silver tea caddy, a pepper pot, a mustard pot and salt cellars and I hope that when Mr MacIver ceases his official activities for the Institute his wife will find that he is at least as good a cleaner of silver for her as he has been a secretary for us.

(Laughter.)

Lest he should make too long a job of his silver polishing activities in these days of time and motion studies, Mrs MacIver is to have the means of timing his work properly, for the gifts also include a fob watch for her own use. She deserves this if only because she has allowed him to spend such long periods away from her on Institute business without complaint, but not without cost to herself. We owe her a great debt and are delighted to acknowledge it

Mr President, I now formally move the following

resolution:

'As today Mr A. S. MacIver, C.B.E., M.C., is attending this Council as Secretary of the Institute for the last time before his departure on Institute business to North America and his subsequent retirement, the Council expresses to him and to Mrs MacIver the warm affection of its members and other members of the Institute for them both.

'The Council records its deep sense of gratitude for the selfsacrificing, distinguished and devoted service which Mr and Mrs MacIver have performed for the Institute since Mr

MacIver first became associated with it as Assistant Secretary in 1935, becoming Deputy Secretary ten years later and succeeding to his present appointment as Secretary in 1950.

"The Council offers to Mr and Mrs MacIver its sincere good wishes for their future happiness and asks them to accept the gifts which will now be presented by the President as a token from past and present members of the Council of the great esteem in which Mr and Mrs MacIver are held."

esteem in which Mr and Mrs MacIver are held.'

If this resolution is passed a copy of it will be included

in the record which we are giving to Mr and Mrs MacIver of the gifts and those who participated in them. May I ask, Mr President, that Mr Barrows will second the proposal? (Acclamation.)

Mr Leonard Barrows: Mr President, members of the Council, I think it would be quite inappropriate for me to attempt to add to the charming tributes that Sir Thomas Robson has paid to Mr and Mrs MacIver. I would only like to say personally that, as a member of the Council from the provinces, since 1941, I am most grateful to Mr MacIver for all that he has done for me and for all our members in the provinces. In order to put the matter formally on our records I second the resolution. (Acclamation.)

The President: Gentlemen, the resolution has been proposed and seconded. May I put that to the meeting? Those in favour? (Cries of 'All'.) Against? That is carried unanimously. (The gifts were then presented to Mr and

Mrs MacIver.)

Mr A. S. MacIver: I must first try to thank you all on behalf of Lolo and myself for the beautiful gifts which we will always treasure and use. The gifts will be a permanent reminder of your kindness to us and of twenty-seven very happy years with the Institute. I am particularly touched by the contributions of past members of the Council and the presence here today of so many of them. Lolo is absolutely delighted with her own personal gift and the thoughts behind it. Very kind things have been said about her and, if I may say so, they are well deserved. I would scarcely have been received in the United States or elsewhere abroad without her. She is indeed grateful to you and so am I. (Hear, hear.)

I now have to thank Sir Thomas and Leonard Barrows for proposing the resolution and you gentlemen for accepting it, and I thank Sir Thomas for the very kind things he

said.

I have no illusions that I have in fact been a very good secretary. Perhaps my only merit is that as Secretary I have made no enemies to the best of my knowledge and have indeed made very many friends. (Hear, hear.)

I have had twenty-seven very happy years and have served as Secretary under thirteen presidents starting with Sir Russell Kettle, whom I am so glad to see here today. I could not have been happier in my association with all of them. There is not one whom I was not sorry to lose

at the end of his year of office. Things have changed since I joined in 1935. The membership of the Institute was then very little over eleven thousand and the total staff was seventeen. Moorgate Place was then remarkable for an atmosphere of almost complete inactivity. Within a formight or so of joining I was left alone for four weeks after George Colville had gone and Wynne Bankes had gone on holiday. Nothing happened during those four weeks to give me a sleepless night or indeed a sleepless afternoon. (Laughter.) We now have a staff of about one hundred and twenty and a membership of getting on for

thirty-six thousand.

Thank you all, gentlemen, very much, for all your friendship, tolerance and support. It is appropriate that on this occasion I should say a few words about the staff and thank them as well. The only ones remaining who were with me when I joined the Institute in 1935 are Loveday, Thomson (the librarian), Everett, Brown and Mrs Amor. I must say a special word, if I may, about Mrs Amor who has been in turn my secretary and personal assistant throughout my whole time with the Institute and I could not imagine life without her. Wilkinson joined us before the end of the war and my debt to him cannot be expressed in words. Integration brought many good things including Evan-Jones and those who came with him from the Society. They have all fitted in marvellously. I wish my successors as happy a time as I have had and I am sure that you will be as kind to them as you have been to me.

Thank you again, Mr President, members and past members of the Council. I shall leave you in October with very happy memories and a very great measure of affection.

(Acclamation.)

#### FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-law appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on July 4th, 1962.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Miles Cecil Rhodes, F.C.A., had been guilty of acts or defaults discreditable to a member within the meaning of subclause (3) of Clause 21 of the supplemental Royal Charter in that (a) despite promises so to do he failed within a reasonable time or at all to deal with requests made to him by the solicitors and accountants of a beneficiary in relation to the estate of a deceased person of which he was an executor and trustee: (b) he failed to reply or to take any action in response to four letters addressed to him by an Under-Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Miles Cecil Rhodes, F.C.A., had been proved under both headings and the Committee ordered that Miles Cecil Rhodes, F.C.A., of Park House, Dollar Street, Circucester, be excluded from membership of the Institute.

#### **Overdue Subscriptions**

The Committee heard 129 formal complaints preferred by the Investigation Committee each to the effect that the member concerned had failed to pay within four months of January 1st, 1962, the subscription then due and payable by him so as to render himself liable to exclusion or suspension from membership. The committee, having found the complaint proved in every case,

- (a) ordered that each of the following twenty-four members be excluded from membership of the Institute:
- George Thomas Hanbury Allen, F.C.A., Lord's Hill, Frinsted, Sittingbourne, Kent.
- Kenneth Robert Arliss, F.C.A., Mount Dennis, Toronto, Ontario, Canada.
- Alfred Charles Axon, F.C.A., 55 Balsdean Road, Wooding-dean, Brighton.
- Harold Bullivant, F.C.A., Stoney Hall, Underberg, Natal, South Africa.
- Donald Harry Clarke, F.C.A., 84 Sandhurst Avenue, Ward End, Birmingham 34.
- Herbert William Coleman, F.S.A.A., 'Edmunds,' Deepdene Park Road, Dorking, Surrey.
- Arnold Thomas Davies, F.C.A., 31 Clifton Crescent, Folkestone.
- Wouter Matthijs De Clercq, A.S.A.A., 173 Columbia Heights, Apt 1, Brooklyn 1, New York, U.S.A.

- Philip Frederick Engelke, F.C.A., P.O. Box 5026, Nairobi, Kenya.
- Cyril Gill, F.C.A., Flat 5, 29 Earl's Court Square, London SW5.
- Harold Frank Gurney, F.S.A.A., 76 Botany Road, Margate, Kent.
- Arthur John Heal, F.C.A., 617A Walsall Road, Great Barr, Birmingham 22A.
- Arthur Alfred Jeacock, F.C.A., 10 Garden Close, Wallington, Surrey.
- Douglas Ernest Roy Matthews, F.C.A., P.O. Box 9276, Johannesburg, South Africa.
- John Arthur Maynard, F.C.A., P.O. Box 387, Umtali, Southern Rhodesia.
- Arthur Edgar Palmer, F.C.A., 4 St Nicholas Road, Uphill, Weston-super-Mare.
- Robert Percival Palmer, F.C.A., Chesterton Priory, Peterborough, Northants.
- Peter John Benjamin Paul, A.C.A., 84 Westcombe Park Road, Blackheath, London SE<sub>3</sub>.
- Frank Norris Pinder, F.C.A., 24 Harcourt Terrace, London SW10.
- Miss Evelyn May Smith, F.C.A., Lloyds Bank Chambers, Baldock, Herts.
- Alan Samuel Spiro, A.C.A., 7362 Ostell Crescent, Montreal 9, P.Q., Canada.
- Vyvyan Ray Symons, F.C.A., Co-operative Bank Chambers, Halifax Street, St Vincent, West Indies.
- James Henry Thomas, B.Sc. (ECON.), A.C.A., 49-53 Water Street, Georgetown, British Guiana.
- Cyril Ward, F.C.A., 29 Lejune Road, Agincourt, Ontario,
  - (b) decided that, of 105 members who had tendered the full subscription before the date of the hearing, twenty-three be reprimended and seventy-one admonished and that no action be taken against eleven, and that in all but four of these cases there existed special circumstances which justified the omission of the name of the member from the publication of the finding and decision. The following four members were reprimanded:
- William Milton Carter, F.C.A., 16 Frederick Street, Marshalls, Johannesburg, South Africa.
- John Brierley Fletcher, F.C.A., 125 Cliff Road, Hornsea, Yorks.
- Dennis Wynne Williams, F.C.A., P.O. Box 53, Isipingo Rail, Natal, South Africa.
- Roy Deiniol Youatt, F.C.A., 35 Pencraig, Llangefni, Anglesey.

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# Notes and Notices

#### PROFESSIONAL NOTICE

Messrs Pridie, Brewster & Gold, Chartered Accountants, of 2-3 Warwick Court, Gray's Inn, London WC1, announce that they have taken into partnership, Mr N. K. Grant, A.C.A., as from August 1st, 1962.

#### **Appointments**

Mr Arnold M. Dalton, F.I.M.T.A., has been appointed chief finance officer of Livingston New Town Development Corporation, as from the beginning of September.

Mr W. G. Frazer, F.C.A., has been appointed chairman of P. C. Henderson Ltd.

Mr Paul F. Granger, F.C.A., has been appointed to the board of Cook & Watts Ltd.

Mr J. M. Osborn, F.C.A., has been appointed to the board of Brooke Bond Tea Ltd.

Mr John W. Read, A.A.C.C.A., assistant director of accounts, British Transport Commission since 1958, has been appointed finance officer in the headquarters management organization of the Southern Region of British Railways.

Mr G. A. Riddell, B.COM., C.A., has been appointed joint managing director of English Electric Co Ltd.

Mr T. Sharpe, F.C.A., has been appointed a director of Greenhaven Securities Ltd.

Mr T. Alan Smith, B.COM., A.C.A., has joined the boards of Hobbs Saville & Bradford (Pensions) Ltd and R. N. Young & Partners Ltd, and has been appointed director in charge of the Birmingham operations of the two companies.

Mr Jack Vernede, F.C.A., has joined the board of Nedeem Tea Co Ltd.

Mr K. L. Young, T.D., F.C.A., has been appointed an additional director of Albert E. Mallandain Ltd.

#### IN PARLIAMENT

#### Company Law: Jenkins Committee

Mr Crosland asked the President of the Board of Trade if he will arrange for the publication of the names of those who submitted written evidence to the Jenkins Committee on Company Law.

Mr Erroll: No. Nearly four hundred persons and institutions submitted written evidence varying from a comment on a postcard to lengthy memoranda. I do not think that publication of the names of all these contributors would be justified. The Committee placed on record in their report their indebtedness to all who gave evidence, whether written or oral.

Hansard, Aug. 2nd, 1962. Written Answers. Col. 140.

#### **National Incomes Commission**

Mr WYATT asked the Chancellor of the Exchequer when he expects to announce the names of the members, and the starting date, of the National Incomes Commission.

Mr Boyd-Carpenter: It is our aim that the Commission should start work as soon as possible. But my right hon. friend the Chancellor of the Exchequer proposes to hold further consultations with representatives of employers and trade unions before the Commission is appointed, and I have therefore at present no announcement to make about its membership or about terms of service. None of the functions of the Ministry of Labour will be transferred to the Commission.

Hansard, Aug. 2nd, 1962. Oral Answers. Col. 777.

#### Income Tax Act, 1952: section 341

Mr D. SMITH asked the Chancellor of the Exchequer if he will state the number of cases of farming losses of persons dealt with under section 341 of the Income Tax Act, 1952, in the latest convenient year, and the estimated loss involved.

Mr Barber: About ten thousand individuals and about five hundred and fifty partnerships in the year to September 1961, with an aggregate loss of about £12½ million.

Hansard, Aug. 3rd, 1962. Written Answers. Col. 165.

### INQUIRY INTO DISTRIBUTIVE AND SERVICE TRADES

An inquiry into the distributive and service trades is to be taken next year by the Board of Trade under the Statistics of Trade Act, 1947, in respect of business done in 1962. The inquiry will be directed mainly to the collection of information about stocks and capital expenditure, similar to that obtained from industry in the Census of Production, though some additional information will be obtained at this inquiry from firms in the motor trades, which were not included in the census of distribution and other services now being taken in respect of 1961. All dealers in new motor vehicles will be asked for returns, together with a sample of other traders (e.g. second-hand dealers, repairers, and filling stations).

The form for motor traders will include a question about turnover in the year, with an estimated division between the following: sales of new motor vehicles, (a) motor-cars, (b) commercial vehicles, (c) motor cycles, scooters, etc; sales of second-hand motor vehicles; sales of spare parts and accessories and receipts from

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repairs and servicing, including materials and parts used; sales of petrol and oil; all other sales and receipts.

From the information gained it will be possible to improve both the estimates of stocks and capital expenditure, and the estimates of expenditure on motor vehicles. The information collected from the motor trades will also serve as the basis for a continuing monthly inquiry on a voluntary basis, starting in January 1964, which will provide an indicator of current activity similar to those now available for the retail and catering trades.

Further information about the inquiry including full particulars of the questions to be asked, may be obtained from the Board of Trade, Census Office, Lime Grove, Eastcote, Ruislip, Middlesex. (Telephone: Pinner 8771, extn 11.)

## EAST ANGLIAN SOCIETY OF CHARTERED ACCOUNTANTS

At the twenty-eighth annual general meeting of the East Anglian Society of Chartered Accountants held recently in Ipswich, Mr Alfred Kenneth Sheppard,



F.C.A., a partner in the firm of Bullimore & Co, Chartered Accountants, of Norwich, was elected President of the Society for the year 1962-63.

Born and educated at Salford, Lancashire, Mr Sheppard was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1928, after being articled to the late Mr Norman Abbott, F.C.A., of Manchester. The same

year he joined the Norwich office of Bullimore & Co and became a partner in 1945. He was elected to fellowship of the Institute in 1952.

Mr Sheppard holds several honorary appointments including the honorary treasurership of the Norfolk Nursing Association. From 1939 to 1945 he served with the National Fire Service and since 1952, has been a member of the Civil Defence warning organization.

Other officers of the Society elected for the ensuing year are:

Vice-President: Mr G. A. G. Oldfield, F.C.A. Honorary Secretary and Treasurer: Mr H. Robinson, F.C.A., Messrs Robinson & Co, 4 Elm Hill, Norwich.

#### **Annual Report**

The report of the Committee for the year 1961 records that membership of the Society at the year-end totalled 296 – a small increase over the previous year's

figure. It is pointed out that membership of the Society represents approximately half the members of the Institute in the area so that there is considerable scope for increasing the number of members of the Society. The Committee asks all members to assist in increasing the Society's membership.

An important feature of the year's work has been the organization in the area of the Institute's 'small practitioner inquiry' and meetings were held in various parts of the Society's area. A number of members also supplied information relating to fees and scales of remuneration but the response from practising members was disappointing, particularly as the results of the inquiry are to be made available only to those members who supply information.

The Ipswich and Colchester branch held regular meetings during the year which were very well supported. The Cambridge branch also held a number of meetings while in the Norwich area an autumn meeting was arranged to discuss the small practitioner questionnaire but was very poorly supported; the Committee

records its regret at the disappointing response to meetings organized in the area.

A week-end residential course for students was held last autumn and it is proposed to hold these courses annually in the future. The Students' Association held regular meetings in all parts of the Society's area which were quite well attended.

#### ECONOMIC CONDITIONS IN NORWAY

A further booklet in the 1962 series dealing with economic conditions in member and associated countries of the Organization for Economic Cooperation and Development has recently been issued covering Norway. Copies of the booklet are obtainable from H.M. Stationery Office, price 3s.

#### BANK HOLIDAY CROSSWORD: SOLUTION

The solution to the Bank Holiday Crossword compiled by Mr Kenneth Trickett, F.C.A., which appeared in last week's issue, is as follows:



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# THE **ACCOUNTAN**

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# Tepid War on Tax Evasion

EARLY ten years ago THE COMPTROLLER AND AUDITOR-GENERAL in his report on the Inland Revenue Appropriation Accounts, drew attention to the loss of revenue resulting from non-disclosure of fees, royalties, etc., by persons engaged in various occupations and professions. The Committee of Public Accounts took up this matter, and in its third report for the session 1953-54 it mentioned the observations of the Inland Revenue, to the effect that while the department had power to require information from employers as to payment of wages and salaries, no similar authority existed to obtain details of fees paid. We might observe that although in those days there was no express authority of this kind, quite a lot could be done by way of asking, in the course of examination of trading accounts, for an analysis of fees paid to entertainers and the like. If the payer was unwilling to disclose the names of the recipients, the Revenue could, in effect, force disclosure by disallowing the deduction and putting the payer to the trouble of satisfying the Appeal Commissioners that the payments were made and were truly deductible expenses.

The Public Accounts Committee reported that the Revenue thought that legislation for such returns would be onerous both to the public and to the department, and that in any case the problem was not important in relation to the amount of revenue involved. However, the Committee expressed the belief that the existence of powers to require disclosure might not only be advantageous to the Revenue, but also have a beneficial effect upon public morale 'which is from time to time disturbed by reported cases of evasion of tax liability'. The Committee was influenced by what it called the remarkable results of the grant in 1951 of a statutory power to require returns of bank interest. It recommended legislation to give to the Inland Revenue discretionary power to require returns of fees. This legislation duly appeared as section 20 of the Finance Act, 1956.

The 1956 Act received the Royal Assent on August 2nd, and by December 18th, 1956, the Committee was back to the charge, for on that day Sir Henry Hancock, k.c.b., k.b.e., c.m.g., then Chairman of the Board of Inland Revenue, was answering the Committee's questions on the appropriation accounts. He was asked whether his department was taking active steps to use the powers given by section 20 and he replied:

'Yes. We are making full use of this for the future to get returns from the entertainment organizations and comparable bodies who in the past have not been prepared to give us the figures.'

Asked if the department was getting any help, Sir Henry said 'We do not anticipate any difficulty'. These references to the future in the replies were not surprising. Seeing that section 20 was confined to payments made after April 5th, 1956, and the Act had only recently received the Royal Assent, it is highly improbable that the Inland Revenue had issued a single inquiry under the section at the time that the chairman was giving these answers.

The story is now taken up by the Third Report from the Committee of Public Accounts for the session 1961-62, which was published last week<sup>1</sup>. The report says that comprehensive application of the section 20 powers has been confined to the entertainment and literary worlds. Information supplied by payers in response to notices issued by Inspectors of Taxes is collated and periodically distributed to the districts assessing the payees. Although the information may not reach the assessing districts until after the payee has in the normal course made his return and been assessed, the department told the Committee that the procedure had proved of great value indirectly. Since the section came into force it had been found that payees rendered their returns of income more promptly, and that there had been fewer discrepancies between the amounts actually returned by the payees and the amounts disclosed by the payers. It is perhaps a tacit admission that even before section 20, some payers were already making returns of the payments. It was certainly an admission that the Committee reporting in 1954 was right to suggest the new legislation, in spite of the lukewarm attitude of the Revenue. This is emphasized by the admission of the department that few back duty cases were now arising in the entertainment and literary professions. Although difficulties had been experienced in identifying and tracing certain payees, the department told the Committee that it did not regard the untraced proportion as high, and gave an assurance that not many payees were escaping their tax liability.

So much for the entertainment and literary worlds. In the more mundane fields of building and civil engineering the picture is not so rosy. The Comptroller and Auditor-General had drawn attention to the prevalence of payments to sub-contractors in these industries and to the

wide differences of practice within the Inland Revenue in inquiring into such payments. In one tax area, exceptionally comprehensive use had been made in this field of the section 20 powers. This operation had revealed thirty-five sub-contractors based within the tax district who were not 'on the tax register' together with forty-two itinerant sub-contractors of whom no trace could be found. In many instances these 'sub-contractors' were labourers or craftsmen, working either individually or in loose associations, who had frequently in the past been employees subject to P.A.Y.E. Subsequently, as sub-contractors under Schedule D they had been escaping assessment.

We have often complained of the disparity between Schedule D and Schedule E, to the disadvantage of taxpayers assessed under the latter schedule, but this was on the footing that the rules as to expenses were different. If Schedule D taxpayers are to escape tax altogether, then surely this is too much.

The Inland Revenue told the Committee that they were unable to state whether tax evasion of this nature was occurring outside the building and civil engineering industries. In those industries the practice of evasion had been coming to the Revenue's knowledge to a greater degree, recently. They had therefore initiated inquiries to discover its full extent. The same note of optimism appears, for the Revenue also said that they did not regard the problem as a very large one; locally based sub-contractors would in the end have been discovered by the normal procedures in tax districts. It was admitted, however, that itinerant labour gangs presented a real difficulty, because of the rapid and frequent changes of address.

The Committee found it disturbing that a special effort in merely one of some 700 tax districts should have produced so much evidence of evasion in a limited field. The Inland Revenue suggested that this one district might be exceptional but agreed that the same could happen elsewhere. The Committee concludes that there is a gap in the tax collection machinery. And although the Revenue doubted whether a wider application of section 20 would afford a practical solution they appeared to be unable to suggest any alternative remedy. The Committee recommends that the inquiries to ascertain the extent of these tax evasions be pursued with urgency.

<sup>&</sup>lt;sup>1</sup> H.M.S.O. 3s net.

# Short-term Gains - VI

#### MARKET VALUE INSTEAD OF ACTUAL CONSIDERATION

S indicated in our fourth article two weeks ago, computation of Case VII profit is arrived at, broadly speaking, by deducting from the proceeds of disposal the cost of the acquisition and the other expenses, on the footing that the acquisition and disposal constitute an adventure in the nature of trade. In the field of income tax as it was before the Finance Act, 1962, there were provisions for the substitution, in certain cases, of the market value of an asset for the actual cost of its acquisition or the proceeds of its disposal. The Case VII legislation also contains such provisions, but there are more of them; perhaps on the principle that the less yield there is from a tax, the more complicated it ought to be. Not only are there more provisions for the substitution of market value, there are provisions for exceptions to those provisions, and for certain rights of election.

Section 12 (3) provides that, with certain exceptions, a person's acquisition of any asset (and the disposal of it to him) shall for Case VII purposes be deemed to be for a consideration equal to the market value of the asset or of the interest or right in or over it received by him:

- (a) where he acquires the asset otherwise than by way of a bargain made at arm's length, and in particular where he acquires it by way of gift, or by way of distribution from a company in respect of shares in the company; or
- (b) where he acquires the asset
  - (i) wholly or partly for a consideration that cannot be valued, or
  - (ii) in connection with his own loss of office or employment or diminution of emoluments, or
  - (iii) otherwise in consideration for (or recognition of) his or another's services or past services in any office or employment, or
  - (iv) otherwise in consideration of any other services rendered or to be rendered by him or another; or
- (c) where he acquires the asset as trustee for creditors of the person making the disposal.

What is a bargain at arm's length? The White

Paper<sup>1</sup> says rather airily that a bargain not at arm's length is 'generally speaking at an artificial price'. The Shorter Oxford Dictionary says that 'at arm's length' means 'without fiduciary relations'. It would seem that 'bargain' must here mean 'contract' and it is a pity that the draftsman did not use that more precise word. It follows that the bargain, besides being at arm's length, must be an enforceable contract (cf. Montague L. Meyer Ltd v. Naylor (40 A.T.C. 31)). There is authority to support the proposition that distributions to shareholders are not at arm's length; see, for instance, Associated British Engineering Ltd v. C.I.R. (19 A.T.C. 468) and Wigan Coal & Iron Co Ltd v. C.I.R. (24 A.T.C. 30) as regards stamp duty; and C.I.R. v. Thornton Kelly & Co Ltd (36 A.T.C. 71) as regards surtax.

The provisions in (a) as to gifts must be read with paragraphs 3 and 4 of the Ninth Schedule, which will be dealt with in a subsequent article. However, it is worth noticing here that section 12 (3) applies to a 'gift in settlement' as a gift to the trustees of the settlement, notwithstanding that the settlor is one of the trustees, or even the sole trustee of the settlement (paragraph 4 (1)). No definition of 'settlement' is given, and it is clear that the definitions in the anti-avoidance provisions in Part XVIII of the Income Tax Act, 1952, do not apply, notwithstanding that paragraph 4 (1), like the rest of Chapter II of the Finance Act, 1962, has to be construed as one with the Income Tax Acts. The expression 'settled property' occurs in paragraph 4 and is defined in section 16 (1) as meaning:

'subject to subsection (4) below, any property held in trust other than property to which subsection (5) of section 12 of this Act applies'.

Section 16 (4) deals with unit trusts, while section 12 (5) applies to:

'assets held by a person as nominee for another person, or as trustee for another person absolutely entitled as against the trustee (or for two or more persons jointly so entitled)'.

<sup>&</sup>lt;sup>1</sup> Cmnd 1710.

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The draftsman has not dealt expressly with genuinely settled property which the trustees have vested in nominees for the trustees. A literal construction of section 16 (1) would apparently take such property outside the definition of 'settled property'. For the purposes of section 12 (6), which deals with 'settled property', if part of the property comprised in a settlement is vested in one trustee (or set of trustees) and part in another, then 'they' (meaning the trustees as a whole) are to be treated as acting on behalf of a single body of trustees. However, according to section 16 (1), property vested in bare nominees is not 'settled property' at all.

Returning now to the categories where the market value is to be substituted for the consideration, if any, for the acquisition, one could say as regards (b) (i) that there is authority for saying that no consideration is completely incapable of being valued. However, given some uncertainty as to the value of the consideration, there is no hardship in taking the market value of the asset. Item (c) emphasizes that the misfortune of going bankrupt may bring with it the added misfortune of liability to Case VII tax on all the bankrupt's assets acquired after April 10th, 1962, and within the statutory six months (or three years) notwithstanding that the bankrupt had every intention of retaining the assets.

The remaining items in (b) must be read in the light of section 12 (4), to which section 12 (3) is subject. It postulates the following circumstances:

- (1) acquisition by a person of an asset;
- (2) the asset or an interest in or right over it is 'received' by him;
- (3) the asset etc., in (2), either:
  - (i) 'falls to be taken into account for purposes of tax as a receipt of an income nature (of any person); or
  - (ii) would fall to be so taken into account if the last-mentioned person were chargeable to tax in respect of the whole of his income;
- (4) the amount falling to be taken into account is not the market value.

In those circumstances, the first-mentioned person's acquisition is to be deemed for Case VII purposes to be for a consideration equal to (4).

We have left until the last the meaning of 'market value'. In relation to any property it means, according to section 16 (1):

'the price which that property might reasonably be expected to fetch on a sale in the open market'. This definition is a considerable advance on the definition for estate duty purposes contained in section 7 (5) of the Finance Act, 1891, which is:

'the price which, in the opinion of the Commissioners, such property would fetch in the open market'.

That definition must be well known to the draftsman and it seems almost that he came to the conclusion that reasonableness and the opinion of the Commissioners were unlikely to be compatible. Perhaps he had been reading the report of *In re Holt* (32 A.T.C. 402).

There is another aspect in which the situation as to the determination of market value is more favourable to the taxpayer than for estate duty. In relation to estate duty it was almost invariably in the interest of the Estate Duty Office to argue for as high a value as they could, and therefore they could enjoy a reputation for some degree of consistency in their approach. Under the Case VII legislation it will often be in the interests of the Inland Revenue to argue for a low market value. They will thus almost inevitably be led into putting forward arguments which can be turned against them on another occasion.

It is perhaps regrettable that this concept of substituting market value for what the taxpayer has actually received was introduced at all. The declared object of the Case VII legislation was to hit the speculator who was using his capital profits as income. The scope for using as income money which you have not received, but which is a fiction generated by the Finance Act, 1962, is somewhat limited, to say the least of it. Being so limited, it is questionable whether it ought to be taxed.

In any case, it is obvious that disputes about market value, which is always a matter of opinion, are going to waste a great deal of time and energy which could be better devoted to more worthwhile ends.

The new definition can also be compared with the provisions of section 143 of the Income Tax Act, 1952, concerning the valuation for Case I purposes of the closing stock of a discontinued trade. In certain circumstances the stock is to be valued at the amount 'which it would have realized it if had been sold in the open market at the discontinuance of the trade'.

#### JENKINS REPORT

# **Investor Protection**

HE tremendous growth in the number and operations of companies and unit trusts has greatly widened the field in which the investor is being invited to buy or sell shares. His protection from the unscrupulous, careless or incompetent company promotor or director has been one of the main concerns of a long series of company and other Acts and he is already in a strong position. Nevertheless, as time goes on, weaknesses in the system become more apparent, and new weaknesses are discovered. That is why the report of the Jenkins Committee contains quite a number of recommendations designed to strengthen the position of the investor vis-à-vis those who want his money, and their cumulative effect is considerable.

Public issues of shares for which a stock exchange quotation is not sought are, of course, rare. One of the attractions of a quoted security is the ease with which it can be sold or its present value ascertained. It follows that the oversight which the stock exchange exercises is of the greatest utility to investors. The threat of withholding or withdrawing an official quotation is a most powerful one, and the comparative rareness of the exercise of this power is perhaps an index of its efficacy. The Jenkins Report points out that, as well as stock exchanges, there are other influences at work to discourage the issue of questionable prospectuses: issuing houses, and the counsel, solicitors, and accountants who are consulted about the various documents to which a public issue gives rise.

Nevertheless, the Jenkins Committee thinks that there is scope for more protection. It recommends that the Companies Act Consultative Committee (already established to advise the Board of Trade) should meet regularly to co-ordinate the experience of the various bodies concerned with the protection of investors. This consultative committee could advise the Board of Trade of changes considered desirable in the administration of the law (including the use of the Board's rule-making powers), or in current practice, to protect the investor. The consultative committee would be free to advise amendments in the Acts,

thus providing, as it were, a continuously sitting committee on company law reform.

The Jenkins Committee's terms of reference confined it to companies and unit trusts. The statutory provisions for the prevention of fraud on investors are largely distributed between the Companies Act, 1948, and the Prevention of Fraud (Investments) Act, 1958, and the Committee would like to see these provisions concentrated in one Act. Industrial and provident societies were outside the Committee's terms of reference, but any reform of the law should surely cover them too. Another important aspect outside the terms of reference is the power of finance companies to make public requests for money on deposit. When a small saver has some money to invest, he is not particularly concerned with the precise legal nature of the body to which he entrusts it and there is certainly room for some more or less uniform code applying to all persons publicly seeking the investors' money.

One particularly blatant piece of deception, which could fool only the very unsophisticated, is to give a company a very large and impressive authorized capital, or even a very large 'issued' capital, without revealing that the amount paid up is very small. The report recommends that the one should not be given without the other. On the subject of advertisement, commercial television opens a new field for the share pusher. The Committee expressed itself satisfied by the rules imposed by the Independent Television Authority; it recommends, however, that the Board of Trade should be empowered under the Companies Act to make rules to control advertisement by broadcasting or television.

It is recommended that the definition of a prospectus be extended to cover the case where investors are invited to contribute not cash but securities, or some other consideration which is not cash. If, however, the prospectus is a take-over offer, it will be covered by different rules discussed below. Under the recommendations, a prospectus will require to contain even more information than it does now. One thing is turnover over

the five financial years immediately preceding the issue of the prospectus, with a statement as to the method of computation. To bring all prospectuses into line with the requirements of the London Stock Exchange in this respect, every prospectus should contain, according to the Committee, statements of the company's authorized, issued and paid-up capital; its loan capital, overdrafts, and directors' borrowing powers, the nature of the company's business, and names of the company's subsidiaries and holding companies. To save waiting another twenty years before the prescribed contents of a prospectus might be reviewed, the Committee would give to the Board of Trade power to amend the requirements of the Fourth Schedule of the Companies Act, 1948 (or the corresponding provisions of the next Companies Act), by statutory instrument. At the same time, the Committee would like the Board of Trade to have power to exempt a company in a particular case from requirements as to the information in its prospectus. Where a stock exchange quotation is being sought, the stock exchange has powers of exemption, and there seems to be no good reason why the Board of Trade should not have them too. How far they would exercise such powers in practice is perhaps another matter. However, the Committee was told that the stock exchange exempting powers had proved extremely useful.

Under the Prevention of Frauds (Investments) Act, 1958, only certain categories of persons are permitted to deal in securities. These 'authorized dealers' can distribute circulars containing invitations to invest, or containing information calculated to lead to investment. Among authorized dealers are members of twenty stock exchanges which are at present recognized by the Board of Trade under the Act. (The Act singles out the London Stock Exchange as needing no recognition.) The Committee thinks that fifteen of these are so small that it is improbable that they are able to perform, as adequately as the large exchanges, the two important functions of disciplining the members and scrutinizing applications for a quotation. It is not suggested that the operations of these small exchanges have led to serious trouble. Nevertheless, the Committee would like to see some rationalization, perhaps by amalgamation, together with the setting up of a compensation fund or a scheme of insurance to compensate investors who suffer loss as a result of default by members.

Another category of authorized dealers consists of 'exempted dealers', the definition of which was framed with a view to covering banks, merchant bankers, issuing and finance houses and the like, who can apply to the Board of Trade for exemption. The Committee thinks that the Act should require the Board of Trade to be satisfied about the reputation and business reliability of those concerns granted exemption. It should also be possible to grant provisional exemption to newlyconstituted concerns in this field. Yet another category of authorized dealers are 'licensed dealers' of whom there are only thirty-five. Few of them come within the range of persons for whom this category was designed, namely, small external brokers who are not members of a recognized stock exchange. They are mainly companies engaged in finance business who do not qualify as exempted dealers. The Committee deprecates this; it thinks that if a finance company does not attain the standards required of an exempted dealer, it should not be given a licence. Some licensed dealers do not deal at all, they merely use their licence in order to be able to issue take-over bids. In their case the Committee thinks the licences should not be renewed.

It seems that a person who is not an authorized dealer but who issues circulars containing investment advice, is in breach of section 14 of the Prevention of Fraud (Investments) Act, 1958. There may be an escape in the fact that a charge is made for the circulars. An investment advisory business which is conducted on the basis of charging by results is a business of dealing in securities within the meaning of the 1958 Act. The Committee thinks that legal provision should be made to allow the conduct of a bona fide investment advice business without infringing the Act. There can be no doubt that the Act was never meant to apply to such a business; it is only the enthusiasm of the draftsman of the Act that has brought them in.

There is nothing very revolutionary in what the report has to say about take-over bids, although it does contain a number of recommendations for tidying up the law. It recognizes that take-overs are an essential feature of economic growth and development. One is apt to look askance at this when thinking of the very large take-overs of the

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past few years, or of cases where there was fraud. However, it is well to remember that there are hundreds of small take-overs being carried out each year and they harm no one; indeed, they are in most cases economically desirable. The Committee rejected the suggestion that the consideration in every take-over should include a substantial amount of cash, rather than being confined to securities in the bidding company.

As indicated in the references above to authorized dealers, the control of take-over bids rests largely on the channel through which the bid is made. The control of prospectuses rests largely on the wording of the prospectus; anyone can issue a prospectus provided it complies with the statutory requirements as to its contents. It does not have to be issued through an authorized dealer or with Board of Trade permission. The Committee thinks that the regulation of take-over bids should be carried out broadly in the same way, including the giving of a civil remedy to investors who lose money through reckless or fraudulent misstatements in the offer, and the requirement that the offer be registered at the Companies Registry.

Another recommendation is that the Board of Trade should have power to make rules (by statutory instrument) applicable to all take-over offers and to recommendations by the directors of the offeree company that the offer be accepted. The Committee approves the Licensed Dealers (Conduct of Business) Rules, 1960, which lay down requirements as to the terms of take-over offers and which in general are followed in this respect not only by licensed dealers, but also by the recognized stock exchanges and other authorized dealers.

At present it is not necessary to file a take-over circular with The Registrar of Companies. As already mentioned, the Committee recommends that the circular (and any circular recommending acceptance of the offer) should be so filed, together with copies of the documents referred to, and these papers be made available on the company's file immediately after the circulation of the offer. The Registrar would have power to reject a circular which in his opinion did not comply with the statutory requirements as to contents, subject of course to the right of appeal. Issue of a take-over bid to the offerees without its having been first filed would be an offence.

It is the way of the take-over bidder to provide himself with an escape clause which enables him to cancel the contract if less than a specified percentage of acceptances are received by him. At the same time the offer is so worded that a shareholder who accepts cannot back out. The shareholder accepting may then have the mortification of seeing the first bidder pass on his acceptance to a higher bidder, and pocketing the difference. Nevertheless, the Committee does not recommend that there be any change in this respect. However, if the original bidder goes on to increase his bid, in order to bring in shareholders who were not tempted by the first bid, then those shareholders who had already accepted the first bid ought, in the Committee's view, to receive the increased price. It recommends a change in the law accordingly. This is in fact the common practice. The Committee also recommends that not only should an offer remain open for at least twenty-one days (unless totally withdrawn), but also that if the bidder has not made his offer unconditional at the end of thirtyfive days, shareholders who have accepted shall thereafter be free to withdraw their acceptances. When an offer has been declared unconditional. the Committee thinks that the bidder should be bound to disclose the number and proportion of shares of each class which he then has or controls, whether as a result of the bid or otherwise. This would enable non-acceptors to reassess their position and to decide whether or not to accept after all.

The information contained in take-over offers, besides covering the ground covered by the licensed dealers' rules, should, in the Committee's view, go further. The bidder should say what steps he has taken to ensure that any necessary cash will be available. Moreover, besides disclosing any special terms offered for directors' shares, the circular should state specifically the total amounts of payments of compensation for loss of office. Figures should not be described in the circular as 'audited' without the express consent of the auditor concerned; similar consent should be necessary for all references to statements by experts.

Finally, the report contains some minor suggestions for the improvement of section 209 of the Companies Act, 1948, concerning the compulsory buying out of a small minority.

# Network Flow Analysis - I

by A. BATTERSBY, B.Sc., F.R.I.C., F.S.S.

Yet another branch of mathematics has entered the world of the accountant: the study of flow through networks. Originally applied to electrical circuits, this theory has now been applied to the 'flow' of time – and therefore money – through the maze of individual jobs in large-scale projects.

'A mighty maze! but not without a plan.' - Pope.

S industry increases in size, its individual enterprises grow in scale. Building a dam, a bridge or a factory; installing a large computing system; designing and developing a new aircraft – these are all projects which employ men, machinery and money on the grand scale. Professor Ritchie Calder has suggested a new million-pound unit – 'The Megaquid' – for measuring the investment in such works. The total expenditure may be spread over a year or more, and in such cases, savings of a few months in time or a few per cent in capital outlay are well worth achieving.

The list of individual jobs which make up the whole undertaking will be formidable; the man who attempts to marshal them into an efficient working arrangement is indeed faced with a 'mighty maze'. The unaided human brain is no more an adequate instrument than is the naked eye in modern astronomy; as the eye needs the magnification of the telescope, so the brain needs the mental amplification which the electronic computer supplies.

Electronic computation has become so fast and cheap and its application to complex enterprises so rewarding, that a new technique has emerged which no conscientious accountant can afford to ignore. It is derived from what mathematicians call the Theory of Graphs and deals with the properties of networks, being particularly concerned with the flow through them: in this case, the flow of time or money. Network Flow Analysis is therefore appropriate as a general title, but different groups working in this field have evolved several variations on the theme, each with its own brand name.

#### PERT and 'Polaris'

Perhaps the most famous 'brand' is the United States Navy's PERT (Program Evaluation and Review Technique) which was applied with spectacular success to the development of the 'Polaris' submarine missile. PERT has since been applied to other weapons; it has proved so valuable that its application to major military contracts in the United States has become virtually a routine stipulation.

The United States Air Force has a similar system called PEP (Program Evaluation Procedure) and other consulting groups have developed CPPS (Critical Path Planning and Scheduling) and LESS (Least Cost Estimating and Scheduling)

The earlier military applications seem to have concentrated on completing a project in the shortest possible *time*, whereas civil versions will certainly have to put the emphasis on minimizing *cost*. In this country, it seems probable that the first applications of network flow analysis will be to large-scale maintenance jobs in oil refineries. Shall we see the same explosive expansion of network methods here as in America, where even the Broadway show *Morgiana* was planned in this way?

The mathematics are difficult – they involve both linear programming and the theory of sets – but standard computer routines are available to deal with them. On the other hand, by discarding technical niceties the method can be reduced to general principles which are easy to understand.

In order to show how network flow analysis works, take a schedule for a small and simple product – a book illustrated with line drawings. The indirect costs incurred in publishing, shall we say, Uncle Reggie's Revels (superseding Uncle Selwyn's Annual) have been assessed at £30 for every week spent on its production, and unless it is produced within thirty-four weeks it will miss the seasonal market and incur a heavy loss. The several activities which go into making and selling the book are listed in Table I: this table also includes their durations and costs. Some of the activities are done as a matter of course by the publisher's own staff, so their direct costs are reckoned as zero. The total direct cost using normal durations will be £1,130. Some activities can be completed more quickly at a higher cost, as the table shows.

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29

Receive orders

Add Jacket ...

TOTAL COSTS ..

Distribute

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#### Network Diagram

From this table we can draw a network diagram for the whole procedure. Each individual activity is represented by an arrow, the length of which has no significance at this stage. The head of the arrow indicates the conclusion of the job, the tail its beginning, and its purpose is to express the elementary fact that no job can end before it begins.

However, some sets of activities can run concurrently – illustrations can be prepared while the typesetting is going on, and so can the binding cases and the jacket. The publicity campaign for Uncle Reggie's Revels is to be based on dummy copies which show the style of binding and the

dust wrapper; this can also be going on at the same time as the main printing processes. By sorting out the activities which are subsequent to each other and those which are concurrent, we can build up the network shown in Fig. 1.

Several characteristics of this network are worth looking at in detail. The first is that it differs from the type of flow process chart used in work study; here it is the lines, not the circles, which represent activities or operations. The circles, called the 'nodes', represent 'events', an event being identifiable with the beginning or the ending of an activity.

The events are numbered serially and serve to

**RANGE** 

RATE

**RAPID** 

1 8 2

0.5

0

5

£1,725

2

15

TABLE I

NORMAL

LIST OF ACTIVITIES IN PUBLISHING A BOOK

EVE	NTS	DESCRIPTION	DURATION WEEKS	COST	DURATION WEEKS	COST £	DURATION WEEKS	PER WEEK
1 2 2 4	2 3 4 5	Negotiate contract Forecast sales Design book Estimate cost	4         	0 10 20 10	2 0·5 2	200 20 20 10	2 0·5	100 20
4 4 5 5 5 5	22 25 6 9	Design jacket Plan publicity Make drawings Prepare MS	   8   4 	10 40 40 5	6 2	10 45 60	2 2	2·5 10
5 5 6 7	17 18 7	Obtain paper Make binding cases Check drawings	8 4 2 8 2	150 40 0	2 3 !	300 - 50 - 5	6 ·   	25 10 5 5
8 9 10	8 12 10	Make blocks Check block pulls Compose type Read galleys	2 4 1	20 0 200 5	2 3 1	40 0 250 5	I	50
11 12 13 13	12 13 14 15	Correct type Paginate Check page pulls Index	2 0·5 I 2	20 0 0 5	2 0·5 I 2	20 0 0 5		
15 16	16 17	Impose Check imposition	Ī	30 0	0·5 1	40 0	0.5	20
. 17 18 19	21 19 20	Machine (press work) Make dummies Cut binding brass	· 6 2	100 . 15 . 5	3·5 4 2	120 20 5	0·5 2	40 2·5
19 20 21 22 23	21 27 23	Stamp binding cases Bind	3 6	25 240 20	l I⋅5 6	25 300 20	1.5	40
23 24 25	24 25 26	Print jacket	3     8	40 5 50	3 ! 8	40 5 50		

Ō

5

£1,130

82

0.5

identify the activities, as shown in the first two columns of Table I. Imaginary activities may have to be introduced in order to avoid ambiguity; for instance, the extra node numbered 3 serves distinguish 'Forecast sales' (activity 2-3) which would otherwise have the same numbering 'Design book' (activity 2-4). The dotted arrow which indicates the imaginary activity between nodes 3 and 4 is given a direction which shows that 'Estimate cost' cannot begin until 'Forecast sales' has been completed. It also serves to close the network, which must have no loose ends. Another similar arrow is 14-15. (The term 'dummy activities' is often used for these, but it is avoided in these articles because of the possible confusion with dummy books.)

Even when the nodes define the activities without ambigu-Figure 1 ity, we may have to put in NEGOTIATE imaginary activities to pre-NETWORK OF ACTIVITIES CONTRACT serve the time sequence. The FOR PUBLISHING A BOOK two activities of this sort are FORECAST DESIGN 19-24 and 24-27. In the first SALES BOOK of these, one might ask, 'Why not combine 19 and 24 into a single node? The answer ESTIMATE COST DESIGN is that although 'Wrap dummies' must obviously follow MAKE MAKE 'Make dummies', the binding MAKE BINDING PREPARE **DRAWINGS** BLOCK brass (which must also follow MS. CASES 'Make dummies' for technical PLAN PRINT MAKE COMPOSE CHECK reasons) may be cut without PUBLICITY JACKET DUMMIES **DRAWINGS** TYPE the wrapper having been printed. The 24-27 arrow CUT READ MAKE **OBTAIN** is needed because no other BINDING GALLEYS **BLOCKS** PAPER BRASS path restricts 'Add jacket' WRAP (20 to following 'Print jacket'. DUMMIES CORRECT CHECK TYPE PULLS **PAGINATE** 

Finally, the nodes are numbered according to a strict rule: if one event (i.e. node) follows another in time, then the number of the later event must be greater than that of the earlier one. More precisely, the word 'follows' in the last sentence should be replaced by 'does not pre-

The table of activities and the network derived from it are the two main weapons with which we shall attack the problem of scheduling. This will be the subject of the next article; in the meantime, readers may find it interesting to find an answer to the question: 'Using normal durations throughout, what is the shortest time which Uncle Reggie's

CHECK INDEX STAMP PAGE SALES BINDING CAMPAIGN CASES IMPOSE cede'. CHECK IMPOSITION MACHINE RECEIVE **ORDERS** BIND ADD JACKET Revels could be produced?' DISTRIBUTE (To be concluded.)

# Taxation Aspects of Amalgamations and Reconstructions – II

by D. O. BAILEY, F.C.A.

#### **Acquisition of Business**

#### Income tax consequences

THE general rule laid down in section 19, Finance Act, 1953, is that a change of ownership of a business involves its being regarded as discontinued by the vendor and as constituting a new business in the hands of the purchaser. The result is to alter the basis of assessment to income tax in accordance with sections 128, 129 and 130, and both parties are affected accordingly. The effect will be disadvantageous at a time of rising profits and this may lead to unreasonable results where there is some continuity of interest. Certain remedies are, however, available.

- 43. An important change in relation to reconstructions was effected by section 17, Finance Act, 1954. This section rules out the treatment referred to in the preceding paragraph where a trade (but not a profession) is transferred by a company, or by a partnership of which a company is a member, if at any time within two years after the date of the change there is a continuing interest to the extent of not less than three-fourths. It is not material that the continuing interest referred to does not subsist immediately after the change or that it only remains in existence for a trivial period.
- 44. The section does not apply to a transfer of a trade by an individual or a partnership consisting solely of individuals notwithstanding the continuance of a three-fourths interest. It does, however, apply to a transfer to an individual or a partnership of individuals by a company or a partnership of which a company is a member.
- 45. In considering whether the necessary three-fourths continuing interest exists a trade carried on by a company is primarily to be regarded as belonging to the persons beneficially owning the ordinary share capital, or in the case of a subsidiary company to the persons beneficially owning the ordinary share capital of the parent company. Ordinary share capital for this purpose includes participating preference shares. Persons who are relatives of one another are to be treated as one for this purpose, as are persons

entitled to income under a trust. There is also a special provision relating to shares owned by a company to the effect that a person who has powers equivalent to voting control or actual control over that company's affairs may be treated as an owner of the ordinary share capital held by that company.

- 46. Where the section operates the effect is that income tax assessments on the profits of the trade continue to be arrived at on the preceding year basis. The assessment for the year of transfer will be apportioned between transferor and transferee 'as may be just', which appears normally to mean on a time basis. Capital allowances continue to be given as if no sale had taken place, and all rights to carry forward losses and unexhausted capital allowances automatically pass to the transferee.
- 47. The operation of the section is obligatory if the conditions are fulfilled. If profits decline after the transfer the purchaser may therefore find himself required to pay tax on the higher profits earned by the vendor. Similarly if the purchaser has acquired the plant and machinery at a price in excess of the written-down values for tax purposes he will be unable to obtain any allowance on the excess.
- 48. If the section is to apply there must be a discontinuance of the vendor's trade. The transfer of a part of a trade, the vendor continuing to carry on the remainder, involves a 'continuance' basis for the vendor and computation of the purchaser's assessments either on a preceding year basis or a 'new business' basis as the facts require. The section is, however, applicable where the vendor transfers part of his 'activities' and discontinues the remainder of his trade. In such a case the activities transferred have to be regarded as if they were a separate trade, and the computations of the vendor must be apportioned to ascertain the figures applicable to the transferred activities and the discontinued activities respectively. Similarly the section is applicable if the transferor's trade is transferred in parts to a number of transferees each being within the three-fourths continuing interest test.
- 49. Any losses and capital allowances carried forward by the vendor and capable of allowance to the purchaser as referred to in paragraph 46 are available only against profits earned from the transferred

existing business of the transferor apportionment of future results may be necessary to ascertain the profits against which the vendor's losses may be set. In effect the purchaser in such a case must be considered as carrying on two separate trades (Murray v. Aviation and Shipping Co Ltd (39 T.C. 595)<sup>1</sup>).

for the year of transfer will be allowed to the purchaser of a trade where the purchase falls within section 17, Finance Act, 1954, on the same basis as would have applied to the vendor, and that the conventional assumption that the accounting year coincides with the tax year may be adopted. In the recent case of C. E. Neale & Co Ltd v. Beak (40 A.T.C. 300), it was held that the vendor's and purchaser's figures must be added together if necessary to ascertain whether a loss had arisen within the year. The right to claim repayment under section 341 in respect of the vendor's loss for the previous year, under section 15 (3), Finance Act, 1953, is specifically given.

- 51. Where the basis of assessment referred to in paragraph 43 is inappropriate some relief may be obtained by the vendor and purchaser entering into partnership for a period. Notices would then be given under section 19 (3), Finance Act, 1953, on both the commencement and termination of the partnership, to the effect that the discontinuance rule shall not apply. This method, however, is of limited application where companies are concerned. The requirement as to registration of the names of partners and other particulars under the Registration of Business Names Act, 1916, must be borne in mind.
- 52. Where section 17, Finance Act, 1954, is not applicable the vendor may have difficulty in obtaining relief for any losses carried forward. He may, however, find some alleviation by way of a terminal loss claim under section 18, Finance Act, 1954. The effect of this section is to enable a loss for the last twelve months of trading, augmented by capital allowances, to be carried back (on a last in, first out, basis) against assessments on trading profits for the three years of assessment prior to that in which the transfer of the business occurred.
- 53. A further relief may be applicable where an individual or a partnership of individuals transfers a business to a company for a consideration consisting wholly or mainly of shares in that company. In such a case section 343 permits a vendor to carry forward past losses against any income he receives from the company, whether in the form of dividends or otherwise. The relief is dependent upon the individual continuing to own the shares representing the purchase consideration and upon the company continuing to carry on the same business.
- 54. If the whole of the vendor's stock-in-trade is not sold to the purchaser the valuation to be put on the remainder must be considered in the light of section 143. The effect of this section is to require the vendor

to bring into account the actual proceeds of sale of any stock sold or transferred for valuable consideration to another trader who will be taxable in this country on the sale of such stock, and to require any other stock to be included in the computations of the final trading period at its open market value. It should be noted that section 143 remains applicable in a case falling within section 17, Finance Act, 1954.

55. From the point of view of the purchaser, in a case where section 17, Finance Act, 1954, is not applicable, the question may arise whether, if he is already carrying on a business, the acquisition can be treated as a mere extension of that business and not as the setting up of a new business requiring assessments on an 'actual' basis in the early years. If the entire business of the vendor has been taken over the provisions of section 19, Finance Act, 1953, already referred to, clearly require that the latter basis shall apply and leave little scope for argument. In other cases the facts will require careful consideration. It is well settled that there can be no succession to part of a business (Stockham v. Wallasey U.D.C. (95 L.T. 834)), and therefore if an existing business is transferred in parts to two or more existing concerns already carrying on a business of a similar nature the question of assessment on an 'actual' basis may not arise. Similarity in nature is, of course, of prime importance in considering whether a new business has been acquired or an existing business extended. Apart from this, particular attention needs to be given to such questions as whether or not goodwill and existing customers were taken over and the wording of the vending agreement will be important. The nature of a trade is primarily determined by reference to its selling activities (or their equivalent in a concern providing services), but other factors may be material. In this connection it is interesting to contrast Briton Ferry Steel Co Ltd v. Barry (23 T.C. 414)2 with Laycock v. Freeman, Hardy & Willis Ltd (22 T.C. 288)3. Too much reliance should not, however, be placed on the latter decision where an existing merchanting concern acquires manufacturing interests as the case is sometimes thought to be of doubtful authority.

56. Another important question arising on the transfer of a business not falling within section 17, Finance Act, 1954, relates to assets on which capital allowances are claimed. Both vendor and purchaser are affected and their interests may be opposed.

57. Vending agreements frequently provide for a single payment to cover the acquisition of a number of different types of asset and apportionment will be necessary to arrive at the capital allowances due to both parties. It is very desirable that this apportionment should be agreed between the parties at the time of the sale, and an agreed apportionment will normally be accepted by the Inland Revenue authorities. They are not, however, bound to accept it; section 326 (1) requires the price of each piece of property

sold to be ascertained on a 'just apportionment', and all items sold as part of one bargain may be brought into account for this purpose notwithstanding that the parties have arranged for separate prices or even separate agreements. Section 329 provides for disputes concerning apportionment to be settled by the General or Special Commissioners.

- 58. It is important to bear in mind that where industrial buildings are concerned the purchaser's capital allowances may be restricted to the vendor's expenditure and may not therefore extend to the full price paid for the buildings. The balancing charges on the vendor will always be limited by reference to his actual allowances obtained, but where plant is concerned this will not restrict the allowances to the purchaser.
- 59. Complications may arise in connection with capital allowances under the Fourteenth Schedule which will apply:
  - (a) where there is control of one party by the other, or where both are under common control, or
  - (b) where transactions have been carried out with a view to obtaining capital allowances as a sole or main benefit.

The basic effect of the schedule is to substitute the lower of open market value and original cost of the assets concerned for their actual sale price. Initial allowances are not claimable by the purchaser except to the extent to which they would not exceed either the initial allowance actually obtained by the vendor or the amount of any balancing charge made on him in respect of the plant in question.

60. The Fourteenth Schedule also permits the parties, where the transaction falls within (a), but not (b), of paragraph 59, to elect that the assets ranking for capital allowances shall be treated as if sold for the lower of their written-down value for tax purposes and their open market value. In this event there is, of course, no claim for initial allowances open to the purchaser, but any liability for balancing charges is deferred until a sale to a non-controlled person is made.

61. Any machinery and plant which is not sold at the date of transfer of the business will be dealt with in accordance with the Sixth Schedule, Finance Act, 1952. Such plant will usually have to be treated as if sold for its open market price (paragraph 2 (1), Sixth Schedule, Finance Act, 1952). There does not appear to be any similar requirement where a balancing allowance is claimed under paragraph 1 (1) (b) of the schedule, i.e. where plant permanently ceases to be used for the purposes of a trade at some time before that trade is discontinued.

62. The investment allowances obtained by the vendor will not normally be in danger of withdrawal. This contingency might occur, however, if assets acquired within three years of the date of the sale were disposed of to a non-resident otherwise than for use

in a trade carried on in the United Kingdom or were retained for non-trading purposes (Second Schedule, Finance Act, 1954).

63. The purchaser of a business may find difficulties arising from the decision in the case of Law Shipping Co Ltd v. C.I.R. (12 T.C. 621) to the effect that repairs attributable to a previous owner's use of an asset were disallowable as being of a capital nature. This decision has no application to a case falling within section 17, Finance Act, 1954, but otherwise the Inland Revenue authorities regard it as applicable even though there is a succession to a business, the assets of which continue in use. It is not clear that this view is reconcilable with the decision in Morgan v. Tate & Lyle Ltd (35 T.C. 367)1 which appeared to proceed on the basis that regard should be had to the trade as an entity irrespective of its owners from time to time, and not to each particular owner. For instance Lord Keith said:

'Income tax legislation has at different times made different provisions for cases of discontinuance of a trade or succession to a trade. These are no doubt provisions relating to the manner or measure of assessment, but as they are a clear recognition of the common commercial experience of a business continuing through several hands, they indicate that "the trade", when used in the statutes, is to be construed as an entity in itself.'

The position can only be clarified by a further case; in the meantime the purchaser may well keep to a minimum his expenditure on repairs during the first year or two after the acquisition of a business.

64. The income tax position of a company which has disposed of its business requires consideration. Such a company will only thereafter be able to secure income tax relief for its expenses if it can comply with section 425 (1), that is to say it must be one whose business consists mainly in the making of investments and whose income is principally derived from investments. A company which merely continues in existence, after disposing of its business, for convenience of winding up its affairs may not qualify for relief under section 425 if its activities do not justify the conclusion that in fact it has set up a new business of making investments.

65. Such a company may be in further difficulties if it wishes to make or receive a subvention payment under section 20, Finance Act, 1953. Under subsection (9) of that section a company only falls within the section if, inter alia, it is carrying on a trade (the making of investments being regarded as a trade if that is the company's main business). It is therefore not clear that a company which has disposed of its business and become dormant can after the date of that event make or receive a subvention payment in relation to periods prior thereto. In practice no question seems to be raised if the payment is made by the end of the fiscal year in which the business was transferred.

<sup>&</sup>lt;sup>1</sup> 33 A.T.C. 184.

#### Profits tax consequences

66. It must be borne in mind that there is no provision in profits tax law similar to section 17, Finance Act, 1954, and that accordingly losses cannot be carried forward on the transfer of a business even though the transferee is a company under the same ownership.

67. If the vendor company has unabsorbed losses relief could only be obtained against the profits of another business carried on by the same company. Section 43, Finance Act, 1947, which covers this point, does not make it clear whether the right of carry forward subsists if two businesses are carried on successively, and not contemporaneously. The point was considered by the House of Lords, but unfortunately not decided, in the case of C.I.R. v. J. B. Hodge & Co (Glasgow) Ltd (40 A.T.C. 232), the case being decided on another point.

68. It will be remembered that a dividend only ranks as 'franked investment income' if it is paid by a company carrying on a business chargeable to profits tax (including a business consisting wholly or mainly in the holding of investments or other property, where that is the main function of the company). A company which has disposed of its trade and merely holds investments or other property without carrying on any real activity may not be carrying on a business for profits tax purposes (Henry Briggs, Son & Co Ltd v. C.I.R. (39 T.C. 410)1 and Carpet Agencies Ltd v. C.I.R. (38 T.C. 223)2). A dividend paid by a company which has ceased to carry on its former trade and has set up no new business may therefore become chargeable to profits tax in the hands of the recipient, and it may be as well to distribute the maximum sum possible before the date of cessation of trading.

69. Any grouping notice previously given by or in respect of a company ceases to have effect from the date on which the company ceases to carry on a trade or business (section 30, Finance Act, 1956).

#### Surtax consequences

70. The vendor company, if within section 245, will normally be unable to point to any requirements for the maintenance and development of its business as factors influencing the amount to be regarded as constituting distribution of a reasonable part of its income. The possibility of a surtax direction for the last accounting period in which the business was carried on is therefore to be regarded seriously. Moreover if the disposal of the business was in contemplation at the date on which the previous year's accounts were considered the Special Commissioners may be expected to take a more stringent view as to the 'reasonable part' than would be the case if the company were expecting to continue in business for an indefinite period. In considering whether increased dividends should be paid the interrelationship between surtax and profits tax needs to be borne in mind as a surtax direction accompanied by relief from profits tax may be the more acceptable course.

71. If the company, being a section 245 company, continues in existence after the sale of its business it is likely to be regarded from then on as an investment company the income of which would be subject to automatic apportionment (C.I.R. v. Parkhouse Collieries Ltd (36 T.C. 675)<sup>3</sup>). If, however, it goes into liquidation the special provisions of section 253 as to the last accounting period and the immediately preceding period will be relevant and will probably involve a direction for the last period, and possibly for the preceding period. On the other hand, if the liquidation takes place solely as part of a scheme for reconstruction or amalgamation, and if there is no withdrawal of funds, it is not the practice to make surtax directions under the terms of section 253.

72. Any income received by the liquidator of a trading company, as opposed to an investment company, is not subject to surtax direction.

#### Stamp duty

73. Stamp duty is generally payable at 2 per cent on the consideration for the sale of a business. The consideration for this purpose will include liabilities of the vendor assumed by the purchaser. There is, however, no duty payable on that part of the consideration which is apportionable to 'goods, wares or merchandise', an expression which includes all kinds of movable property. Duty is not charged on the amount applicable to bank balances on current account. It is a common practice to exclude debtors from a sale agreement, with a view to saving stamp duty thereon. If necessary the purchaser can be required to collect such debts as agent for the vendor.

74. Under section 42, Finance Act, 1930, stamp duty is not chargeable on documents transferring property from one associated company to another. Companies are 'associated' for this purpose if one of them is the beneficial owner of not less than 90 per cent of the issued share capital of the other or not less than 90 per cent of the issued share capital of each of the companies is beneficially owned by a third company with limited liability. In contrast to most taxation legislation, a foreign company is regarded as a company for the purpose of this relief. It is important to note that the test is beneficial ownership; indirect interests are irrelevant.

75. The relief provided by section 42, Finance Act, 1930, is under section 50, Finance Act, 1938, not available where the consideration for the transfer is provided directly or indirectly by a third party other than an associated company. This would, for instance, bar the relief where property is transferred to an associated company in consideration for an issue of shares as part of a scheme whereby a third party is to buy those shares from the transferor company.

<sup>&</sup>lt;sup>1</sup> 38 A.T.C. 180. <sup>2</sup> 37 A.T.C. 331.

<sup>&</sup>lt;sup>3</sup> 35. A.T.C. 157.

# Miscellaneous Points Compensation to directors and employees

76. It will frequently be the case that an amalgamation or reconstruction involves the payment of compensation to directors and employees, and the question then arises as to the taxation treatment of such payments both as regards payer and recipient.

77. Such payments will rarely be trading expenses admissible in the computations of the payer. If the payment is made by the purchaser it is clearly part of the cost of acquisition and therefore of a capital nature. If made by a company which has transferred its business it will be disallowable as being an expense of closing down the business rather than of carrying it on (C.I.R. v. Anglo Brewing Co Ltd (12 T.C. 803)<sup>1</sup>).

78. The other case for consideration is that where shares in a company are acquired, and the new controlling shareholders desire to make changes in the management. Here it becomes a nice question of fact whether compensation paid to the outgoing management is an allowable expense – was the payment made solely in the interests of the company's trade or was it made partly to facilitate the change of control? The position was summed up by Donovan, J., in the case of James Snook & Co Ltd v. Blasdale (33 T.C. 244)<sup>2</sup> as follows:

"The mere circumstance that compensation to retiring directors is paid on a change of shareholding control does not of itself involve the consequence that such compensation can never be a deductible trading expense. So much is common ground. But it is essential in such cases that the company should prove to the Commissioners' satisfaction that it considered the question of payment wholly untrammelled by the terms of the bargain its shareholders had struck with those who were to buy their shares and came to a decision to pay solely in the interests of its trade.'

This case may be contrasted with that of C.I.R. v. Patrick Thomson Ltd (in liquidation) (37 T.C. 145),<sup>8</sup> where compensation paid to a director by a company about to go into liquidation was held to be allowable. In that case the company's trade was transferred at the time of liquidation as a going concern to another company.

79. From the recipient's point of view his liability to tax will normally be governed by section 37, Finance Act, 1960. It will be remembered that tax is only chargeable under this section on the excess of any payment over £5,000, and that the Fourth Schedule, Finance Act, 1960, provides further relief both as regards the amount taxable and as regards the rate of tax. Liability to tax otherwise than under these provisions is only likely to arise where a service agreement contains a requirement that a payment shall be made on early termination of the employment (Dale v. de Soissons (32 T.C. 118)<sup>4</sup>).

#### Overseas trade corporations

80. The liquidation of an O.T.C. normally involves

<sup>1</sup> 4 A.T.C. 304. <sup>2</sup> 31 A.T.C. 268. <sup>3</sup> 35 A.T.C. 487. <sup>4</sup> 29 A.T.C. 125.

the payment of tax on so much of the distributions by the liquidator as represents profit accumulated whilst the company was an O.T.C. For this purpose profits must be recomputed on the basis of making adjustments on normal lines for capital expenditure, capital allowances, stocks and so on, as opposed to the general rule applicable to O.T.C.s of computing the trading profit on ordinary accounting principles. Difficulties may arise in connection with double taxation relief.

81. There is, however, relief where the winding-up of an O.T.C. is for the purpose of amalgamation or reconstruction, the conditions being:

- (a) that the trade of the O.T.C. is transferred to another company;
- (b) that the consideration for the transfer consists wholly or mainly of shares which are to be distributed to the shareholders of the vendor company, and;
- (c) that the two companies give joint notice of election.

The distribution of shares by the liquidator is then to be disregarded in arriving at the amount of the taxable distribution. The value of the shares is, however, to be set first against share capital and share premium, and only as to any balance is it regarded as representing profits. The amount exempted from tax in this way will be regarded as exempt trading income of the transferee company which will be treated as if it had itself been an O.T.C. when the income arose. There will accordingly be a tax liability assessable on the transferee company if and when the relative amount is distributed. It should be noted that if the consideration for a transfer consists partly of shares and partly of cash the shares are regarded as primarily to be set against capital and share premium.

82. There appears to be no way of winding up an O.T.C. without incurring a tax liability except as referred to in paragraph 81. If, however, an O.T.C. merely ceases to trade no such liability arises, provided the cessation does not occur after O.T.C. status has been lost (an O.T.C. holding company will, however, be taxable as on a winding-up if it ceases to be an O.T.C., irrespective of liquidation).

#### Conclusion

83. The circumstances of each case differ and nothing would be more likely to lead to error than an attempt to lay down hard and fast rules to meet the situations which arise on amalgamations and reconstructions. It is, however, usually the case that there is more than one solution to problems of this sort, and the considerations referred to above may assist in finding the most suitable solution in a particular instance. It is certain that to overlook the possible consequences of a scheme upon tax liabilities is to court disaster. We are told that 'the condition upon which God hath given liberty to man is eternal vigilance', and the standard of vigilance required of the professional adviser on amalgamations and reconstructions is almost as high.

# The Accounting World

#### TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

#### SOUTH AFRICA

#### P.A.Y.E. Scheme Approved

THE Select Committee appointed to inquire into the proposals for a pay-as-you-earn system of tax collection has recommended that the system should be introduced, and the Minister of Finance has announced his acceptance of this recommendation. The necessary legislation is to be introduced in the next session of Parliament, early in 1963, which means that the new system is likely to come into operation on March 1st, 1963. The original proposals of the Commissioner for Inland Revenue have been accepted in principle though various modifications have been proposed.

To provide for the fact that future tax will be collected on current earnings instead of on the income of the previous year to June 30th, there will be a 'tax holiday' for the period July 1st, 1962, to February 28th, 1963 for individuals whose taxable income for that period does not exceed £1,100 or 75 per cent of their taxable income for the year to June 30th, 1962, whichever is the greater. Where this exemption does not apply, the taxpayer will be entitled to a deduction of up to two-thirds of his taxable income for the year to June 30th, 1962. The effect of this is that all taxpayers with an income of less than £1,100 for the eight months to February 28th, 1963, and all those whose income, regardless of amount, is rateably no higher than that of the previous year, will enjoy the 'tax holiday'.

Similar provisions will apply to companies, dependent upon the date on which their annual accounts are drawn up. Thus a company whose financial year-end is June 30th will, for the year to June 30th, 1963, be allowed a deduction of eight-twelfths of its taxable income for the year to June 30th, 1962. A provision that the year of assessment of companies will be the same as their financial year — an arrangement which can also be claimed by individual traders—should assist considerably in staggering the work of professional accountants over the whole year. This should, in turn, result in a reduction in the time taken to produce audited balance sheets.

Objections to the scheme as it affects taxpayers, other than employees, were mainly on the grounds that estimates of profits on which provisional payments of tax would be payable in advance could present considerable difficulty, particularly in the case of seasonal fluctuations or unexpected losses. The Select Committee considered, however, that the discretionary powers to be granted to the Com-

missioner would be adequate to alleviate any cases of hardship.

In the case of individual taxpayers, it was clear that the scheme would result in most cases in a small overpayment of tax. This was due to the fact that the tax deductions will not take into account such allowances as insurance premiums, dependent relatives, and the maximum of £100 per annum allowed to taxpayers in respect of medical expenses incurred during the year. It was submitted by the Commissioner that since assessments would continue to be made at the end of each tax year, it would be a simpler matter to make repayments where tax had been overpaid than to complicate the table of tax deductions by giving effect to these variable allowances.

The general conclusions were that P.A.Y.E. would have a beneficial effect on the general economy, by curbing overspending – and over-trading – on money which should have been retained to discharge the taxpayers' liability to the State.

#### UNITED STATES

#### Opinions by Auditors on Opening Inventories

A NEW ruling of the Securities and Exchange Commission provides that a qualified opinion by independent accountants, in their first audit, referring to their inability to satisfy themselves as to opening inventories, will not be acceptable for filing with the Commission, in connection with the public offering of securities.

The American Institute's 'Codification of Statements on Auditing Procedure' requires the accountant to 'satisfy himself as to such inventories by appropriate methods'. Hence, it is said, an exception as to opening inventories cannot accompany the accountant's report 'that his examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as he considered necessary in the circumstances...'. Alternative procedures must be adequate to support an unqualified opinion.

#### **CANADA**

#### Accountants' Exchange Scheme

THE Canadian Institute of Chartered Accountants in co-operation with the New Zealand Society of Accountants have announced an exchange scheme which will enable Canadian accountants to obtain

one to two years' experience in New Zealand and New Zealand accountants to spend a similar period in Canada.

At first, it is stated in the June issue of *The Canadian Chartered Accountant*, the scheme will be confined to recently-qualified members in their early twenties employed in public accounting. Members whose applications are endorsed by the Institute will be guaranteed employment in New Zealand by a leading firm of accountants in public practice for a period of from one to two years. Salaries will be at rates comparable to those earned by senior audit staff in New Zealand, but travelling expenses will be the responsibility of the member.

This interesting scheme, which is whole-heartedly commended to members by the Councils of the Canadian Institute and the New Zealand Society, affords an opportunity for members to advance their professional knowledge and to gain an appreciation of the way of life in another country of the Commonwealth. Growth of international exchange schemes on these lines would surely be beneficial not only to the individuals concerned, but to the accountancy profession throughout the world.

#### FRANCE

#### **Amalgamation of Accountancy Bodies**

THREE accountancy organizations in France were amalgamated recently to form the Institut Français des Experts Comptables. The organizations concerned were the Compagnie Nationale des Experts Comptables, the Chambre Nationale des Experts Comptables Diplômés par l'Etat and the Union Professionnelle des Sociétés Fiduciaires d'Expertise Comptable. The affairs of the new Institute are being conducted from the offices of the first-named of the three bodies at 139 Rue du Fauborg, St Honoré, Paris, 8 eme.

#### OVERSEAS TAX DEVELOPMENTS

The following notes have been made available by the Inland Revenue Library (Foreign Section).

#### Ceylon

One Act and two Bills contain proposals to amend the tax laws:

- (1) The Foreign Loans (Amendment) Act exempts from income tax the profits of approved bodies of persons outside Ceylon from aid granted to the Ceylon Government.
- (2) The Income Tax (Amendment) Bill includes the following provisions:
  - (i) The exclusion from liable income of the value of travelling facilities granted to a person not a citizen of Ceylon, or his wife or child, for visits to their home abroad is extended so as

also to exclude journeys on taking up or leaving the appointment in Ceylon.

(ii) The exemption of the emoluments and foreign income of certain scientists and technicians is extended to experts and advisers.

- (iii) The exemption of the profits of new industrial and deep sea fishing undertakings is to apply from April 1st, 1962, to the whole of the profits (i.e. the limitation to 5 per cent of capital employed is removed) and in the case of industrial undertakings is to begin from the year in which production or manufacture commences. As a result the limitation on the exemption of dividends when only paid out of exempt income is also removed and the provisions for the deduction of tax therefrom no longer apply.
- (iv) The exemption of any charity whose assessable income for the year does not exceed Rs4,000 with marginal relief so as not to reduce the assessable income less tax below that figure.

(v) The rate of interest on amounts carried forward in respect of lump-sum depreciation is reduced to 4 per cent.

- (vi) New rules regarding travelling and subsistence expenditure; as from April 1st, 1962, the amounts deductible from the profits of a trade, profession, etc., are limited to expenditure incurred within Ceylon calculated by reference to the scales laid down for public officers, with further limitations in the case of executive employees of the persons carrying on the trade, etc., including a maximum annual allowance for a person carrying on a trade or business of Rs2,000.
- (vii) Depreciation is only admissible on a vehicle used for travelling in connection with a trade, profession, etc., if the vehicle is used by an employee other than an executive officer.
- (3) The Finance (Amendment) Bill seeks to amend the Finance Act, 1961, as from the date that Act took effect.

It chiefly relates to the National Development Tax. The exemption from this tax of a person exempt from income tax is replaced by an exemption of emoluments which are exempt from income tax under the Income Tax Ordinance or under a double taxation agreement. The tax is normally collectible by deduction from wages, etc., but provision is now made for collection from the employee if necessary. It is made clear that employees liable include Civil Servants and company directors. Employers' contributions to approved pension, etc., funds are not added to the employees' liable emoluments. National development tax paid during one year is an admissible deduction from income for income tax purposes in the following year (not the same year).

The Bill also proposes some minor changes to surtax, rice subsidy withdrawal and business registration fee.

# Weekly Notes

#### THE INSTITUTE'S EXAMINATIONS

TOTAL of 3,889 candidates sat for the May examinations of The Institute of Chartered Accountants in England and Wales. Of 1,620 candidates for the Final examination, 814 (50.3 per cent) passed and 806 failed; in the November 1961 examination 813 (47.9 per cent) passed and 883 failed

The First Certificate of Merit, the Institute Prize, the W. B. Peat Medal and Prize, the Plender Prizes for the papers on Taxation (equal with one other), General Financial Knowledge, Cost and Management Accounting and English Law (Parts I and II) were won by Mr Roger Vivyan James Chadder, of London. The Second Certificate of Merit, the Walter Knox Scholarship, the William Quilter Prize and the Plender Prizes for the papers on Auditing and Advanced Accounting (Part II) were won by Mr David Edward Alban Morris, of London, and the Third Certificate of Merit and the Charles M. Strachan Prize were won by Mr John Kirby, of Widnes.

In the Intermediate, there were 2,062 candidates, of whom 1,015 (49.2 per cent) passed, and 1,047 failed; in the November 1961 examination, 939 (44.9 per cent) passed and 1,152 failed. The First Certificate of Merit, the Institute Prize, the Stephens Prize, the Frederick Whinney Prize and the Plender Prizes for papers on Taxation and Cost Accounting, Auditing and General Commercial Knowledge were won by Mr Ashan Rashid, of London. The Second Certificate of Merit was won by Mr Peter Regan, of Southend-on-Sea, and the Third Certificate of Merit, the Tom Walton Prize and the Plender Prize for the paper on Book-keeping and Accounts (Partnership), were won by Mr David Charles Brittain, of Weston-super-Mare.

In the Preliminary examination, 207 candidates sat, of whom 54 (26 per cent) were successful, and 153 failed; in the November 1961 examination 57 (26 per cent) passed and 161 failed.

A full list of successful candidates, together with a summary of the results, appears elsewhere in this issue.

#### **EUROPEAN ACCOUNTANTS' CONGRESS**

THE outline programme and the names of the speakers at the European Congress of Accountants to be held in Edinburgh from September 10th to 13th, 1963, have now been announced and full details are given on other pages of this issue.

At the Congress - which is being held under the patronage of H.R.H. The Duke of Edinburgh with The Institute of Chartered Accountants of Scotland as the host organization - four subjects will be considered and six papers will be delivered on each subject. The United Kingdom speakers will be Mr Charles M. Jennings, F.A.C.C.A. ('Accounting principles'); Mr F. Clive de Paula, T.D., F.C.A., F.C.W.A. "The impact of electronics on the accountant of the future'); Mr S. M. Duncan, F.C.A. ('Auditing'), and Mr A. S. Boyd, F.C.A. ('The accountant's contribution to small businesses, particularly in connection with specialized services'). The Continental speakers will be from France, Belgium, Germany, Italy, The Netherlands, Switzerland, Denmark, Austria, Spain, Norway, Sweden and Finland. It is planned to circulate the papers in the three Congress languages - English, French and German - to all participants, while at the business sessions simultaneous translation will be provided in all three languages.

The social programme will include a reception held by H.M. Government; a garden party given by the Lord Provost, magistrates and Council of the City of Edinburgh; a banquet; a ball; a symphony concert by the Scottish National Orchestra; and tours of parts of the Scottish Highlands, the Trossachs and the Border country. An exhibition entitled 'European Accounting History' is being arranged as part of the Congress. It will be open to the public and will be held in Chartered Accountants' Hall, 27 Queen Street, Edinburgh.

Consequent upon the recent amalgamation of three French organizations (as noted in *The Accounting World* in this issue) the number of accountancy organizations whose members are eligible to participate in the Congress is now reduced from forty-one to thirty-nine.

#### PROBLEMS OF ECONOMIC STIMULATION

THE urgency of the problem confronting Mr Maudling is underlined by the latest survey of the United Kingdom economy published in the current issue of the National Institute Economic Review. This foresees a continuation of the very slow expansion which has marked the British economy in recent years and it concludes that the time has now come for the Government to stimulate demand. The dominant feature in the economy is the failure of consumption to increase in real terms, and the consequent unwillingness of industry to invest. In fact, in the second quarter of 1962 factory building in the private sector of the economy fell to its lowest level since 1953. Only the expansion in public sector capital expenditure has maintained the overall level of investment.

Unfortunately, as we pointed out in a leading article in *The Accountant* of August 4th, any stimulus to the economy may initiate a wages-costs spiral which will completely offset such benefit as was gained from Mr Lloyd's policies. Nevertheless, it

seems increasingly likely that the Government will have to take a chance and increase consumer demand if the economy is to emerge from its present torpor. Recent events have shown that it will be easier to devise an acceptable incomes policy in a state of assured and continuous growth, than in the conditions of present stagnation. Whether the stimulus to consumption should be direct through the removal of the 10 per cent surcharge on outlay taxes, or indirect by means of more generous and speedier capital allowances to industry, is debatable. There seems little doubt, however, that the time has now come for a halt to the restrictive monetary policy of recent years. The Government should realize that it is as important to avoid creating the impression among industrialists that deflation is here to stay, as it was to convince them that inflation would be checked.

#### VISITORS FROM NEW ZEALAND

MR A. W. Graham, B.COM., F.R.A.N.Z., Secretary of The New Zealand Society of Accountants, arrived in London last week-end with his wife and 10-year-old son. Since leaving home in July they have visited Australia, Hong Kong, Bangkok, Amsterdam and Paris, being received and entertained in most of these places.

Mr Graham will be a guest of the Scottish Institute at its Summer School later this month, and at the English Institute's Summer Course at Oxford in September, before going on to the International Congress in New York. Thereafter he is to tour Canada, visiting the Canadian Institute and a number of universities.

#### SUBVENTION PAYMENTS BARRED

AN interesting point was raised before Mr Justice Stephenson on Monday, on the question of subvention payments under section 20 of the Finance Act, 1953. Mr F. S. McWhirter, c.A., receiver for The Bestwood Co Ltd and Plowright Brothers Ltd (both of Knightsbridge SW7), applied for directions as to whether Bestwood and its wholly-owned subsidiary Aerex should be allowed to make subvention payments of £78,000 and £43,750 respectively to Plowright, which was another subsidiary of Bestwood. It was said that Plowright was insolvent, and although it was a subsidiary of Bestwood it was not a wholly-owned subsidiary, as a lot of its preference shares were owned by the public. The subvention payments would reduce the overall tax liability of the group.

The proposed payments were contested by Aerex and shareholders of Bestwood, while an unsecured creditor of Plowright supported the proposal. His lordship said (according to *The Financial Times* of August 14th) that he would not give a formal judgment but would content himself by saying that the affidavits and other matters put before him fell short of showing that there was an enforceable agreement between the companies to make the payments, as the Finance Act, 1953, required. Readers will recall that

the same point was made in *Montague L. Meyer Ltd v. Naylor* (40 A.T.C. 31).

#### COMMONS FINANCIAL CONTROL

THE financial procedure of the House of Commons is based on the theory that money is never given to the executive unless it asks for it, and that it will ask for as much as it thinks it will be likely to get, and that the executive ought to be given as little as possible. But the modern reality is almost the opposite. according to Sir Edward Fellowes, K.C.B., C.M.G., M.C., writing in the July issue of the Journal of the Parliaments of the Commonwealth<sup>1</sup>. Sir Edward, lately the Clerk of the House of Commons, therefore speaks with authority on this topic. He points out that in practice it is the executive which has to resist the demands of Members of Parliament for larger expenditure, because it is members who want expenditure - until it comes to paying the bill, when taxes are still as unpopular as ever. The position is further complicated by the fact that the Budget is no longer solely used for money-raising, but also for economic ends.

Sir Edward asks whether the constitutional proprieties would, indeed, be greatly outraged if the Crown asked for a grant of money in quite general terms, and then the House decided how much to grant and by what means that amount should be raised - including not merely spending money but also money used for putting the economy right. It would be after this omnibus grant that the executive would present the estimates for spending the sum allotted. This radical change, says the writer, would involve much alteration, including probably a tax year ending about November 30th, instead of April 5th. But it would have the advantage of confronting the House of Commons with the probable size of the bill, and with the economic ability of the country to stand it, before the details of the expenditure had been irrevocably fixed. The Chancellor would be in a stronger position to resist what he thought was unnecessary expenditure, if the revenue had already been fixed. At present, we put the cart before the horse.

#### **BUILDING SOCIETIES' FUNDS**

THE reduction in Bank rate and the fall in yields on gilt-edged stocks have considerably benefited the funds of building societies over the past six months. A year ago most societies were complaining that the proportion of new savings being invested with them was exceptionally low. In the first six months of 1962, however, member societies of the Building Societies Association reported total new investments amounting to £300 million, a record figure. Even though withdrawals, at £180 million, were £10 million above the figures for the first six months of 1961, net receipts for the half-year at £120 million constituted a record

<sup>1</sup> Houses of Parliament, London SW1, 7s 6d net.

and were £47 million or 64 per cent more than in the corresponding period a year ago.

Although the rate was stepped up from £88 million in the first quarter of the year to £110 million in the second, advances to house-buyers were £7 million lower in the first six months of 1962 than a year ago.

This is attributed to the fact that there is usually a lag of two or three months between the promise of a mortgage and its completion. The demand for mortgages is still said to be heavy, and in spite of the improvement in the flow of funds no general reduction in interest rates is expected in the immediate future.

# This is My Life ...

by An Industrious Accountant

CHAPTER 133

DO we commercial types earn our pay too unadventurously, or does the routine salary cheque dull our initiative? I spent one evening recently arguing the point when, following a lecture on cost control, a bunch of us got together to talk about salary rates and increments. We decided unanimously that we jolly well earned every penny we got. We couldn't afford to gamble.

I came back by the early morning train, and settled down to my paper in an empty first-class compartment. At least, it was nearly empty. Just before we started, a little man slipped in from the corridor and sat down heavily. He waved cheerfully and said: 'Bung-ho, pal. Bottoms up and top of the morning. My name's Jackie; they all know me.' He shook hands ardently.

He wore one of those long peaked transatlantic baseball caps and a huge flowing Paisley scarf tucked into the front of his shabby blue-check suit. His face was brown and wizened, his eyes bright and friendly; even at that morning hour I could detect the faint odour of whisky. He put a huge binocular case, festooned with soiled race tickets, on the seat and commenced an interminable monologue in a peculiar hoarse accent. About horse-racing, of course. I could only understand a fraction of what he said, for race-horses leave me cold at the best of times, so I was rather monosyllabic, I'm afraid. Not that he minded. He was a genial little fellow who seemed quite content to hear his own voice.

He was talking about his days as a tic-tac man, and later as an assistant trainer. 'Five hundred quid the old man gave me when we pulled off the Derby that year.' He had been a newspaper 'scribe', as he called it, and tipped winners in unprecedented profusion. 'That "treble" won me £118 – a lot of money in those days.' I felt an acute stab of envy. At that stage the ticket collector looked in and clipped my ticket; my companion gave him a comradely grin and showed his binocular-case. Incomprehensibly, the collector passed on without comment.

The little horsey man moved up opposite me and tapped my knee confidentially. I tried unsuccessfully

to be absorbed in the contents of my brief-case. 'Got my card marked at Kempton Park by the boy himself,' he whispered. 'We're old pals, y'know. Look.' Across the centre of the dog-eared little booklet was a scrawl of names, race times, odds. 'You look a real nice bloke, you're good company,' he said without much justification. 'Just remember these, they'll bring me in a nice packet, you'll see.' A feeling of avarice arose and grappled with my professional distrust. 'Mark them on my paper,' I suggested helpfully, and he nearly had a fit. 'Not where they'd all see it,' he expostulated, so I ultimately wrote down two or three names on an envelope from his wheezy dictation. 'Manchester, 4.30, Saturday week . . .'

He sat back and licked his lips. 'I'm thirsty,' he said. 'Gimme something for a drink . . . gimme a note.' It was an ancient touch, of course; I felt righteously indignant. I offered to buy him a drink in the restaurant car later on, but he was persistent and somehow rather sympathetic. He seemed to have a simple and happy philosophy, up today and down tomorrow. 'Busted my leg in three places at Cheltenham, hadn't a tosser when I got out of hospital. He opened the binocular case, which seemed to be stuffed with an old shirt and socks, and extracted a coloured handkerchief. 'Gimme something, anyhow,' he grinned. 'I never mind anything s'long as I get my nip of Scotch regular-like.' I hadn't the heart to refuse; so I gave him some silver and he departed in the best of spirits.

One side of my mind told me urgently to fill him up, extract all the information he could produce, then stake my surplus funds on shrewd permutations of his tips. The other side, that seasoned by years of accountancy training, said sharply that I was old enough to have more sense.

How often, it remonstrated, had tips on other occasions from various pals fallen at the first hurdle or limped home late that evening? How rich would I be, could I get all that good money back again? Anyhow, only a mug tries to beat the bookies at their own game.

Before me at this moment lies the piece of paper bearing Jackie's three winners, at 8 to 1, at 9 to 4, at 100 to 8. After all, they were definitely written in his own race-card; presumably they reflect the triple-distilled, hard bought wisdom of the slickest confraternity of the sporting world. Maybe it would do me good to deviate from the norm for once; maybe I'll plunge this time; maybe . . . facilis descensu Averni.

# Finance and Commerce

#### Down to Earth

IT is not often that one reads such down-to-earth words from a company chairman to his share-holders such as Mr A. R. Duckworth, chairman of John Duckworth & Son (Blackburn) Ltd, sets out in his annual statement with the accounts reprinted this week. The company is in textile manufacture. In the year of these accounts to March 31st, 1962, it received the first instalment of re-equipment grant under the Cotton Industry Act, 1959, the amount, £4,009, being shown as a deduction from the value of the fixed assets.

This year, it shows a trading loss of £78,447 compared with the previous profit of £39,507. It is the first year since the company was made public in 1946 that it has not made a profit and paid a dividend. While domestic conditions are primarily responsible for the trading loss, 'new costing procedures which failed to give early warning of trading losses' comes under other reasons. And in outlining remedial measures, including extensive reorganization of management, Mr Duckworth says 'the costings of the company have been thoroughly reviewed and placed on an accurate basis'.

There was also a serious drop in the efficiency of their production, says Mr Duckworth, and his review of the counter-measures is what one might expect under the circumstances.

#### Decision

But what of future prospects? he asks, and in his answer brings shareholders face to face with the realities. 'All our efforts will be of no avail unless we can sell our production at some profit margin. I feel it would be foolish for me to make any forecast', he continues: 'competition at home and abroad is very intense, both in printed fabrics and in our own type output, jacquard cloths. The refusal, so far, of the Government to act effectively in the matter of cloth imports is a constant worry to the industry.'

Mr Duckworth assures shareholders that the board is determined to do everything they can to restore to the company 'the rewards of an efficiently-managed and forward-looking enterprise'.

But it is not the board's intention 'to fritter away the company's assets in unprofitable trading. If after this current year', Mr. Duckworth declares, 'the possibility of a fair return on your capital is not attainable within the foreseeable future, the plain truth will be put before you and you will be asked for your decision as to whether this enterprise is to be continued or not'.

It is not often that shareholders get the facts of business life put to them so bluntly.

#### Computer

AN NCR 315 computer is to be installed at the new head office at Oadby of the Leicester Permanent Building Society, whose general manager is Mr J. G. Hall, F.C.A. The plan is to give to the com uter all the Society's accounting processes. An indication of the work involved is seen in the number of borrowers from the Society – some 46,000 – and in the 78,000 investors in the Society.

Leicester Permanent has recently set a new line in building society finance by reducing its rate for new mortgages from  $6\frac{1}{2}$  per cent to  $6\frac{1}{4}$  per cent. A  $\frac{1}{4}$  per cent rebate for existing borrowers will be given, but from October 1st. The traditional move in rate is  $\frac{1}{2}$  per cent and it would have been  $\frac{1}{2}$  per cent this time but for the profits tax which the societies bear. Cut out the profits tax, says the Leicester Society, and the rate would be reduced a further  $\frac{1}{4}$  per cent.

Such a concession by the Chancellor, it is understood, would involve about £4 million a year.

#### Continuity

THIS year's accounts of Courage Barclay & Simonds Ltd, the brewers, show the effect of the concentration that has been taking place in the brewing industry. The consolidated balance sheet at March 31st, 1962, now adds up to £82,602,277, as compared with £44,632,339 a year previously. Next year's figures should bring in the Witney Brewery of Clinch & Co Ltd, for which an offer was made and accepted after accounting date. The issue of 237,500 Courage £1 Ordinary and 154,976 £1 Preference is involved. The effect will also be seen of the capital plan which subdivides the £1 Ordinary to 10s and by capitalization of reserves gives one new share of 10s for every £1 previously held.

Much of the statement by Mr R. H. Courage is given to the general reorganization and the settling into a united whole of the new constituents of the group, to the elimination of overlapping trading areas and rationalization, production, distribution and management. One thing such a long and detailed annual publication needs, however, is the equivalent of the 'continuity girl' in film production.

Mr Courage, for instance, says that the new Harp Lager brewery at Alton should be in production next year, as planned. Twelve pages later where the brewery, in construction, is pictured, the prospect is that it will be in production by the end of this year. It is a minor matter that a difference of twenty-four hours in actual time could harmonize. The 'continuity girl' would have spotted it.

# JOHN DUCKWORTH & SON (BLACKBURN) LIMITED CONSOLIDATED BALANCE SHEET – 31st MARCH, 1962

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Chartered Accountants.

WATERWORTH, RUDD & HARE,

JOHN DUCKWORTH & SON (BLACKBURN) LIMITED BALANCE SHEET, 31st MARCH, 1962

# ACCOUNTANT

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	Share Capital Authorised and Issued 3,000,000 Shares of 1/- oach fully paid	stry Act, 1959 (6	Revenue Reserves General Reserve		: : : spuep	Company	Note: There are Commitments for Capital Expenditure amounting to approximately £ Nii (1961: £12,650).

# REPORT OF THE AUDITORS TO THE MEMBERS OF JOHN DUCKWORTH & SON (BLACKBURN) LIMITED

We have obtained all the information and explanations which we considered necessary. In our opinion the company has kept proper books, and the balance sheet of the company, which is in agreement with them and with the said information and explanations, gives with the group accounts in the prescribed manner the information required by the Companies Act, 1948. In our opinion the foregoing accounts give a true and fair view of the state of affairs as at 31st March, 1962, and of the loss for the year ended on that date of the company and of the group consisting of the company and its subsidiaries.

Blackburn,

21st May, 1962.

#### CITY NOTES

AFTER so long a recession, a rally of the size experienced in the past two weeks on the London market is naturally treated with some suspicion. What has happened in ten days to attract buyers to an equity market which has been weak and uncertain for so long?

There is little factual evidence to support the improvement, apart from evidence that the easier hire-purchase conditions allowed last spring, have helped retail sales. The American economic position remains doubtful and the Common Market negotiations are in abeyance.

It is the absence of bad news rather than the existence of good that has fostered a change of market and investment mood. A change of mood in a market short of shares at low price levels inevitably has quick and marked effect on quotations, more particularly if the London jobbers are hardly unanimous in considering the change of mood a correct one.

The mood could be given substance by early action towards economic re-expansion by positive Government measures. The authorities, however, seem more concerned with getting agreement on an incomes policy with the unions than with taking the economic steps which many consider already overdue.

RATES AND PRICES
Closing prices, Wednesday, August 15th, 1962

Tax Reserve Certificates:	(interest rate) 28.4.62 23%
Bank	Rate
Oct. 27, 1960 5½%	Nov. 2, 1961 6%
Dec. 8, 1960 5%	Mar. 8, 1962 5½%
July 26, 1961 7%	Mar. 22, 1962 5%
Oct. 5, 1961 $6\frac{1}{2}\%$	April 26, 1962 4½%
Treasu	ry Bills
June 8 £3 15s 0.28d%	July 13 £3 17s 9.32d%
June 15 £3 148 4.01d%	July 20 £3 18s 7·14d%
June 22 £3 16s 11.8d%	July 27 £3 178 8.89d%
June 29 £3 18s 5.03d%	Aug. 3 £3 16s 5.05d%
July 6 £3 18s 0.63d%	Aug. 10 £3 158 8.84d%
Money	Rates
Day to day 27-37%	Bank Bills
7 days 23-37%	2 months 4 15 - 4 18 %
Fine Trade Bills	3 months $4\frac{1}{18}-4\frac{1}{8}\%$
3 months 5½–6%	3 months 4 16 - 4 18 % 4 months 4 16 - 4 8 %
4 months $5\frac{1}{2}$ 6%	6 months 4 18 - 4 18 %
6 months $5\frac{3}{4}-6\frac{1}{2}\%$	
Foreign E	xchanges
New York 2.801	Frankfurt 11.203
Montreal 3.02 €	Milan 1740Å
Amsterdam 10-112	Oslo 20.03\frac{3}{4}
Brussels 139.47½	Paris 13.74\frac{1}{4}
Copenhagen 19.39	Zürich 12·11 2
Gilt-e	edged
Consols 4% 65%	Funding 3% 59-69 873
Consols 2½% 42¾	Savings 3% 60-70 84 16
Conversion 51% 1974 978	Savings 3% 65-75 75 16
Conversion 5% 1971 961	Savings 21 % 64-67 89 16
Con'sion 3½% 1969 89½	Treas'ry 51% 2008-12 011
Conversion 3½% 59	Treasury 5% 86-89 878
Conversion 3½% 59 Exchequer 5½% 1966 101 %	Treasury 3½% 77-80 74½
runding 52% 02-04 942	Treasury $3\frac{1}{2}\%$ 79–81 $73\frac{7}{8}$
Funding 4% 60–90 907	Treasury 2½% 42½
Funding 3½% 99-04 63½	Victory 4% 95
Funding 3% 66–68 883	War Loan 3½% 59

# Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

#### **Assistant Directors**

SIR, – The practice seems to be growing of appointing 'assistant directors', the intention being to convey, I think, that persons so designated are executives in the last stage of their probation before actual appointment to directorship.

Now, so far as the domestic arrangements of a company are concerned there is no objection. It is only right that a person in such a position should acquire extra status and that this should be recognized within his own organization.

When the outside world is concerned, however, the matter becomes somewhat involved. Readers of your journal will have no difficulties in their assessment of such a title, but for those less skilled it could be very misleading.

If one receives a letter bearing the signature over the title of, say, 'Director', 'Chief accountant', 'Buyer' and so on, then the position is fairly clear, but where does one stand when it is signed by an 'Assistant director'? I am certain that most laymen will read into that title much that does not exist. Indeed, many directors will do the same, for some, whilst very able in their particular fields, do seem to lack a knowledge of their powers and personal responsibilities.

The difficulty arises when an 'assistant director' commits his organization in some material way. Whereas one could safely accept such a commitment without question if given by a director, one ought to be on one's guard and make an inquiry if the person signing is an 'assistant director'. Certainly one would be bound to do so if the title ever appeared in a document of some legal significance.

It seems to me that a person designated in this way is 'neither fish nor fowl'. Surely, a person is a director or he is not; there are no degrees of directorship. It would be both helpful and interesting to know if others are meeting this new situation and how they regard it.

Yours faithfully, London NW4. JOS. E. LINDO.

#### Advertising by Institute Members

Sir, – With regard to the restrictions on advertising by members of The Institute of Chartered Accountants in England and Wales, as imposed by the Council and publicized in your issue of August 11th, we feel that no distinction is made between advertis-

ing to the public and advertising between members themselves. It would appear to us to be unnecessarily prohibitive that the Council should forbid members who are in a position to accept subcontracting work, from making contact with practising members who could utilize their services.

From our experience there are a number of smaller firms who on occasions depend upon such assistance to tide them over awkward periods. We fail to see how such firms, or the members of the Institute as a whole, in any way benefit from this ruling.

Yours faithfully, LAURENCE J. GERRARD. MICHAEL LESTER.

London N3.

#### Whole Pound Accounting

SIR, — I would be very interested in the views of readers on the question of dispensing with shillings and pence in the entire internal accounting of industrial companies and financial institutions such as investment trusts. I understand that some well-known companies already keep their accounts in pounds only and it would be most helpful to hear of the opinions of accountants who may have been concerned with such a change in book-keeping procedure.

Yours faithfully, Sutton, Surrey. W. C. NOWELL.

[Perhaps to set the ball rolling it may be mentioned that 'whole pound' accounting systems are understood to be operated by Colgate-Palmolive Ltd, the Port of Bristol Authority and Coventry City Council, to name but three widely differing types of organization. An article on the subject appeared in *The Accountant* of July 23rd, 1960. – Editor.]

#### Tax Allowance: Specialist's Home Telephone

SIR, — I refer to your comments on the letter from 'Emergency' in the issue of July 21st and would be interested to hear how you reconcile those comments with the decision in *Hamerton v. Overy*, 33 A.T.C. 64; 35 T.C. 73, which appears to conflict. The reason I ask is that I have recently been refused any allowance whatsoever on home telephone in circumstances that are identical.

Yours faithfully, Keighley. K. MARSDEN, F.C.A.

[There is no question of reconciling our comments with the Hamerton v. Overy decision. In his letter in our issue of July 21st our correspondent stated that it was 'one of the conditions of his (client's) employment... that he shall have a telephone at his private residence'. In Hamerton v. Overy, on the other hand, the appellant contended that 'he was obliged to have a telephone in his house' but the question of it being an obligation laid down as a term of his appointment does not appear to have been argued — Editor.]

#### **Materials and Labour Variances**

SIR, - In his 'new approach' to materials and labour variances in standard costing, included in your issue of July 7th, Mr R. H. Parker refers to the use of a 'joint variance' as being more useful for purposes of cost control.

This seems too far removed from practical cost control to give any help at all. It is most disappointing to learn, from time to time, how theoretical are the practices that are devised and the thoughts behind their application.

Cost control starts before money is spent or time and materials used. It is a practical physical operation

and not an accounting exercise.

Accounts and statistical reports do not control costs. They are required merely to tell the approximate score in money and figures of the results of the physical control that has been maintained.

The simpler the method of approach is and the less fanciful the figures that are presented, the greater is the likelihood of achieving and maintaining the continued enthusiasm of the executives whose task it is (and not the accountant's) to control costs.

Yours faithfully, London WII. W. IAN GLASS.

SIR, - I am most grateful for your readers' comments on my article.

I should like to assure 'At Variance' (July 21st issue) that I do not subdivide variances 'for fun' nor did I think that my simple algebra would make anyone 'dizzy'. I agree that the buyer's job is to buy what we want at the right price and that if we want more than we ought to that is not his affair – in which case why hold him responsible for it?

Mr Halford's gloomy arithmetic (in the same issue) is not quite accurate. This may be illustrated in the case of overheads. It is necessary to express standard capacity in terms of some unit. If, for instance, we select direct labour hours, then the standard overhead rate will be:

Budgeted total overheads
Budgeted direct labour hours

and the actual overhead rate

Actual total overheads
Actual direct labour hours

Building on the illustration given in my article, we might have the following (assuming absorption costing and a fixed budget):

		Direct	Overhead	Total
		Labour	Rate	Cost
		Hours	S	£
Actual		1,100	21	1;155
Budgeted		1,000	20	1,000
Standard for	units			
produced		900	20	900

The total variance is £255 and assuming that we can ignore calendar, method and mix variances it is

possible to calculate volume, efficiency and price variances as follows:

Overhead volume variance=(budgeted hours-actual hours) × standard overhead rate=(1,000-1,100) × 20s=£100 Cr.

Overhead efficiency variance = (actual hours - standard hours) × standard overhead rate = (1,100 - 900) × 20s = f.200 Dr.

Overhead price variance=actual overhead-budgeted overhead=£1,155-£1,000=£155 Dr.

The effect of the overhead price variance (sometimes called the expenditure or budget variance) is to remove the *rate variation*. The volume and efficiency variances depend only on the relationship between actual, budgeted and standard hours and the standard overhead rate. They are analogous to a

sub-division of the materials usage variance. No joint variances, double or treble, can therefore arise. There will be a joint variance, however, if we use marginal costing and a flexible budget and attempt to calculate an efficiency variance and a price variance. However much we subdivide our variances there are only two variables – price and quantity.

I cannot agree with Mr Glass (this issue) that my figures are 'fanciful'. Certainly not as fanciful, anyway, as some of those produced by the advocates of absorption costing. On this point, at least, I think

Mr Halford would agree with me!

Yours faithfully, R. H. PARKER, Senior Lecturer in Commerce, UNIVERSITY OF WESTERN AUSTRALIA.

Nedlands, Western Australia.

# Twelfth National TAXATION CONFERENCE

#### Scarborough, October 19th-22nd

As already announced, the twelfth National Taxation Conference is to be held in Scarborough from October 19th to 22nd, under the chairmanship of Mr Percy F. Hughes, Editor of *Taxation*. The conference is open to members of the accountancy and legal professions in both public practice, and in industry and commerce.

The programme, which includes special attractions

for the ladies, is as follows:

#### Programme

All business sessions will be held in the Olympia Ballroom, Scarborough.

Friday afternoon, October 19th

Inaugural address by the Conference Chairman, Mr Percy F. Hughes, and a civic welcome by the Mayor of Scarborough, Councillor W. H. Smith. It is hoped that lady visitors will attend these exercises.

visitors will attend these events.

Address: "Taxation problems of family companies seeking public finance', by Mr E. H. Gordon, B.A., taxation consultant with Slaughter & May, formerly a Principal Inspector of Taxes, Board of Inland Revenue. Chairman: Mr G. L. Barker, F.A.C.C.A., Immediate Past President, The Association of Certified and Corporate Accountants.

Friday evening

Reception and cocktail party given by the Editor of *Taxation* in the Ballroom of the Grand Hotel; all members and their ladies invited.

Saturday morning, October 20th

Brains Trust: Questions on quotations from the Income Tax Acts and decided cases in the Courts.

Chairman: Mr James S. Heaton, F.C.A.

Panel: Mr J. Christie, A.C.A., Mr Maurice F. Coop, B.A., Mr J. M. Cooper, A.A.C.C.A., A.C.I.S., Mr L. Varty, H.M. Inspector of Taxes.

For the ladies: By special arrangement with Marshall & Snelgrove – A demonstration of care of the hair etc. will be held in the Ballroom of the Grand Hotel.

Saturday afternoon

Address: 'Drafting the Finance Bill', by Mr P. H. Sée, C.B., Parliamentary Counsel. Chairman: Mr G. A. Usher, M.B.E., T.D., C.A., Immediate Past President, The Institute of Chartered Accountants of Scotland.

Address: 'Taxation and industry – with particular reference to tax problems concerned with United Kingdom entry into the European Common Market', by Mr A. Dale, F.A.C.C.A. Chairman: Mr A. E. Dawson, F.C.A., Immediate Past President, The Institute of Chartered Accountants in Ireland.

Saturday evening

Civic reception and dance to be given by the Mayor of Scarborough in The Spa Ballroom. Invitations will be extended to all those attending the conference.

Sunday morning, October 21st

Morning Service at St Mary's Parish Church, conducted by the Rural Dean of Scarborough, The Rev. Canon D. Oxby Parker, M.A.

Eighteen-hole Stableford Golf Competition for the Taxation Challenge Cup on the course of the South Cliff

Golf Club, Scarborough.

Monday morning, October 22nd

Address: 'History and work of the Ways and Means Committee of the House of Commons—with particular reference to the Finance Act, 1962', by Mr Geoffrey Stevens, M.P., F.C.A. Chairman: Mr Ernest Long, F.C.I.S., member for finance and administration, Central Electricity Generating Board.

Address: 'How fair is the United Kingdom tax system', by Dr A. S. Silke, M.COM., PH.D. (CAPE TOWN), C.A. (S.A.). Chairman: Mr F. M. W. Hird, F.C.A., F.C.W.A., Immediate Past President, The Institute of Cost and Works Account-

ants

For the ladies: Demonstration of flower arrangement by Julia Clements in the Ballroom of the Grand Hotel.

#### Registration Still Open

A limited number of places remain and readers wishing to attend the conference are urged to make early application for registration. The only charge (apart from hotel accommodation and travel) is a registration fee of two guineas per person.

Registration forms and lists of hotels are obtainable from the Conference Secretary, 98 Park Street, London

Wr.

# European Congress of Accountants

#### EDINBURGH, SEPTEMBER 10th-13th, 1963

ELEGATES from thirty-nine accountancy bodies in twenty countries of Western Europe will be participating in the European Congress of Accountants to be held in Edinburgh next year from September 10th-13th. The host organization - The Institute of Chartered Accountants of Scotland - has now announced the outline programme for the Congress, together with the names of the authors of the papers to be presented at the business sessions, and details are given below.

#### OUTLINE PROGRAMME

#### Monday, September 9th

Afternoon. Registration

Evening. Pre-Congress Reception for delegates and their ladies by the President and members of Council of The Institute of Chartered Accountants of Scotland.

#### Tuesday, September 10th

Morning: Registration.

Religious services (Protestant and Roman Catholic).

Afternoon: Opening Session (with simultaneous

interpretation) (in the Usher Hall).

Garden Party by the Lord Provost, Magistrates and Council of the City of Edinburgh (in the grounds of Lauriston Castle).

Evening: Symphony Concert by The Scottish Nat-

ional Orchestera (in the Usher Hall). Conductor: Alexander Gibson. Solo violoncellist: Jacqueline du Pré.

#### Wednesday, September 11th

Morning: Business Session I: Accounting Principles the accounting principles and conventions adopted in the preparation of statements of operating results and of assets and liabilities for purposes of management and for publication to shareholders.

(With simultaneous interpretation.) (In the Usher

Hall.)

Authors of the six papers:

FRANCE

Monsieur Birman Fédération des Compagnies de Chefs de Comptabilite Albert Grevoul Société de Comptabilité de France Monsieur Lauzel Conseil National de la

Comptabilité BELGIUM

Joseph Colleye Collège National des Experts Comptables de Belgique

GREAT BRITAIN AND IRELAND

The Association of Certified Charles M. Jennings,

F.A.C.C.A. and Corporate Accountants

NETHERLANDS

Drs E. L. Th. Vereniging van Academisch Laterveer Gevormde Accountants

Norway

Hans L. Markussen

Norges Statsautoriserte Revisorers Forening

GERMANY

WP Dr Karl Schneider

Institut der

Wirtschaftsprüfer in Deutschland e.V.

Morning and afternoon: Excursions.

Afternoon: Business Session II: The Impact of Electronics on the Accountant of the future - in relation both to the accountant in practice and to the accountant in industry.

(With simultaneous interpretation.) (In the Usher

Authors of the six papers:

FRANCE

	Michel Braudo	Institut Français des
24	Monsieur Houlez	Experts Comptables Fédération des Compagnies
	Monsieur Laboissiere	de Chefs de Comptabilité Institut Français des Experts Comptables

GREAT BRITAIN AND IRELAND

F. Clive de Paula, The Institute of Cost and Works Accountants T.D., F.C.A., F.C.W.A.

SWITZERLAND Willi Moser

Schweizerische Kammer für Revisionswesen

DENMARK

Victor Rasmussen Foreningen af Statsautoriserede

Revisorer

GERMANY

WP Dr Willi Steinebach Institut der

Accountants

Wirtschaftsprüfer in Deutschland e.V.

NETHERLANDS

J. W. van Belkum

Nederlands Instituut van

Evening: Congress Banquet.

#### Thursday, September 12th

Morning: Business Session III: Auditing - the ways in which the professional responsibilities of the auditor are discharged in the context of the obligations imposed on him in various countries.

(With simultaneous interpretation.) (In the Usher

Hall).

<sup>&</sup>lt;sup>1</sup> In due course each organization represented will be asked to name a certain number of its participants as delegates.

<sup>&</sup>lt;sup>8</sup> Joint authors of a paper.

#### Authors of the six papers: FRANCE Emmanuel Archavlis Société des Experts Comptables Français Fédération des Associations Pierre Fauconneau de Commissaires de Sociétés inscrits par les Cours d'Appel Robert Mazars Ordre National des Experts Comptables et Comptables Agréés GREAT BRITAIN AND IRELAND S. M. Duncan. The Institute of Chartered Accountants in England F.C.A. and Wales SWEDEN Lars Elvstad Föreningen Auktoriserade Revisorer ITALY Professor Arnaldo Consiglio Nazionale dei Marcantonio Dottori Commercialisti GERMANY WP Professor Dr Institut der Wirtschaftsprüfer in Willy Minz Deutschland e.V. NETHERLANDS Nederlands Instituut van Drs P. J. van Sloten Accountants

Morning and afternoon: Excursions. Evening: Congress Banquet.

An Exhibition entitled 'European Accounting History' will be held throughout the Congress (in Chartered Accountants' Hall, 27 Queen Street).

#### Friday, September 13th

Morning: Business Session IV: The Accountant's contribution to small businesses, particularly in connection with specialized services.

(With simultaneous interpretation.) (In the Usher

Hall.)

Authors of the six papers:

Austria

Dr Ernst Allet

Kammer der

Wirtschaftstreuhander

GREAT BRITAIN AND IRELAND

Arthur Stanley Boyd, F.C.A. The Institute of Chartered Accountants in Ireland

NETHERLANDS

D. de Rooij

Nederlands Instituut van Accountants

FRANCE

Jean Fleury
Roger Millien
Pierre Monnot

Institut Français des Experts Comptables

FINLAND

Professor Henrik Virkkunen K.H.T.-Yhdistys Föreningen C.G.R.

Spain

Author to be named

Instituto de Censores Jurados de Cuentas en España

Afternoon: Closing Session. (With simultaneous interpretation.) (In the Usher Hall.)

Evening: Reception to delegates and their ladies by H.M. Government (in Edinburgh Castle).

Congress Ball.

#### Saturday, 14th/Sunday, September 15th

Post-Congress excursions.

1 Joint authors of a paper.

# New Legislation

All new Acts will be noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective.

# STATUTES (10 & 11 Eliz. 2)

# Chapter 34: Acts of Parliament Numbering and Citation Act, 1962

An Act to provide for the numbering and citation of future Acts of Parliament by reference to the calendar year in which they are passed.

Price 3d net.

July 19th, 1962.

#### Chapter 35: Shops (Airports) Act, 1962

An Act to exempt shops at certain airports, and the carrying on of any retail trade or business in connection with such shops, from the provisions of Part I of the Shops Act, 1950; and for purposes connected therewith.

Price 3d net.

7uly 19th. 1962.

# Chapter 36: Local Authorities (Historic Buildings) Act, 1962

An Act to make provision for contributions by local authorities towards the repair and maintenance of buildings of historic or architectural interest and the upkeep of gardens occupied therewith; and for purposes connected therewith.

Price 5d net.

July 19th, 1962.

#### Chapter 39: Drainage Rates Act, 1962

An Act to authorize the use of an alternative method of assessing drainage rates in the case of land falling within subsection (4) of section 22 of the Land Drainage Act, 1961.

Price 3d net.

July 19th, 1962.

# Notes and Notices

#### PROFESSIONAL NOTICE

Messrs Alexander B. Neil & Co, Chartered Accountants, of 4/7 Chiswell Street, London EC1, announce that their senior partner, Mr A. B. Neil, C.A., will retire on August 31st, 1962. He will be available to the firm in a consultative capacity, especially in connection with the work with which he has been identified. The practice will be carried on by the remaining partners, Mr C. C. Bigg, F.C.A., and Mr K. S. Carmichael, F.C.A., in association with Messrs Wilson, Bigg & Co, Chartered Accountants.

#### **Appointments**

Mr F. W. Browne, A.C.A., formerly chief accountant of Doulton & Co Ltd, has been appointed managing director of Doulton Sanitary Potteries (Australia) Pty Ltd.

Mr W. A. Crombie, c.A., A.C.W.A., has been appointed secretary of David Bridge & Co Ltd.

Mr W. O. Jolliffe, A.I.M.T.A., A.S.A.A., has been appointed Borough Treasurer of Blackpool.

Mr D. J. Kean, T.D., F.C.A., has been appointed a director of Henry Norrington & Son Ltd.

Mr H. C. Medlam, M.A., F.C.A., has been appointed chairman and managing director of British Syphon Co Ltd.

Mr T. G. Niven, c.A., M.A. (GLAS.), has been appointed secretary of The Birmingham Small Arms Co Ltd.

Mr W. H. Sharland, F.C.A., has been elected to the Council of the Institute of Directors.

#### **OBITUARY**

#### Mr W. R. T. Whatmore, M.C., B.A., F.C.A.

We record with regret the sudden death on Friday, July 27th, of Mr Walter Roland Tracy Whatmore, M.C., B.A., F.C.A., a senior partner in the firm of Peat,

Marwick, Mitchell & Co.



'Whatty', as he was known to his colleagues as well as his countless friends and business acquaintances, graduated at Christ Church, Oxford, in 1914 and immediately thereafter joined the Royal Warwickshire Regiment and served with distinction in the First World War, rising to the rank of Lieutenant-Colonel and gaining the Military Cross with Bar.

He joined the firm of Peat, Marwick, Mitchell & Co as an articled clerk upon demobilization in 1919, and was admitted as an Associate of The Institute of Chartered Accountants in England and Wales in 1922, becoming a partner in the firm in 1926 and continuing in active professional practice up to the day of his death

Not only was he well known throughout the profession in the United Kingdom, but also abroad, particularly in the United States and Canada. As a man of strong personality and great experience, noted for his logical and clear thinking, he will be long remembered for the wise counsel given to the financial and commercial undertakings which from time to time sought his advice and guidance.

A memorial service will be held at 12 noon on Friday, September 21st, at St Michael's, Cornhill, London EC3.

Sir Harold Howitt writes:

It is a privilege to be asked to add this postscript, and I gladly do so. My original contact with 'Whatty' was in the First World War when we served in the same Division, little thinking then that he would later join me in 'Peats' and that we should be happy partners together for thirty-five years.

He was a remarkable character, combining with a blunt common sense – often bluntly expressed – an intimate grasp of all the subjects of his profession and particularly of those which he made so much his own and on which he was an acknowledged expert until the date of his death. He died in fact only two months before he was due to retire and it is probably true to say, and certainly comforting to think, that he would have been glad to go in full harness.

A very great friend of partners, staff and clients, an unforgettable personality with unforgettable laugh and language, a rebel against authorities of all kinds, he remained his buoyant self until the end, well knowing since a recent illness that that end might come at any time. He gave us to the last a grand example of courage

as well as lesser virtues.

## THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Finding and Decision of the Appeal Committee of the Council of the Institute appointed pursuant to bye-law 108 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on August 2nd, 1962.

The Appeal Committee heard an appeal against the Finding and Decision of the Disciplinary Committee of the Council of the Institute upon a formal complaint preferred by the Investigation Committee of the Council to the Disciplinary Committee that Roy Jack Climpson, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of clause 21 of the supplemental Royal Charter in that notwithstanding (a) that he was by a decision of the Disciplinary Committee of the Institute made on August 3rd, 1960, reprimanded for failing to make to a widow monthly payments due to her in respect of an agreement made by him with her late husband and (b) that he was by a decision of the Disciplinary Committee of the Institute made on June 7th, 1961, reprimanded for failing to agree and settle the amount due in respect of the agreement, he had failed since September 4th, 1961 (being the date on which his appeal against the Finding and Decision of the Disciplinary Committee made on June 7th, 1961, was dismissed by the Appeal Committee of the Institute), to agree and settle the matters

in dispute between him and the said widow in respect of the said agreement, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee affirmed the Finding of the Disciplinary Committee that the formal complaint against Roy Jack Climpson, F.C.A., had been proved and the Committee, varying the Decision of the Disciplinary Committee, ordered that Roy Jack Climpson, F.C.A., of 58 Kingston Road, Teddington, Middlesex, be suspended from membership of the Institute for a period of six months from August 2nd, 1962.

#### Members' Library

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Anatomy of Britain; by A. Sampson. 1962. (Hodder & Stoughton, 35s.)

British Trade in the Common Market; plain facts about the Common Market; by C. Clark. 1962. (Stevens, 18s.) Compound Interest; by N. E. Sheppard and D. C. Baillie.

(Toronto.) 1960. (University of Toronto Press, 48s.) Country Counting House: the story of two eighteenthcentury clerical account books; by A. T. Hart. 1962. (Phoenix, 25s.)

Dividends under the Income Tax; by D. M. Holland. Princeton. 1962. (Princeton University Press, 36s.)

The Duty and Office of a Land Steward . . .; by E. Laurence: second edition. 1731. (H. W. Edwards, 84s.)

Economics: an introductory analysis; by P. A. Samuelson:

fifth edition. New York. 1961. (McGraw-Hill, 55s.)
Farm Accounting and Management; by F. Sturrock: fourth edition. 1962. (Pitman, 20s.)

Fidelity Guarantee and Contingency Insurance; by R. C. Howard and W. A. Dinsdale. 1962. (Stone & Cox, 25s.) Introduction to English Law; by P. S. James: fifth edition.

1962. (Butterworth, 22s 6d.)

The Lending Banker: a review of the principles of bank lending unsecured advances and balance sheets and the banker; by L. C. Mather: second edition. 1960. (Waterlow, 12s 6d.)

Leo and the Managers; by J. R. M. Simmons, 1962.

(Macdonald, 18s.)

Maritime Transport 1961: A Study by the Maritime Transport Committee. (Organization for Economic Cooperation and Development.) Paris. 1962. (O.E.C.D., 9s.)

Money, Income and Employment; by E. Schneider: translated by K. Klappholz. 1962. (George Allen & Unwin, 32s.)

Pension Scheme Precedents; by W. Phillips. 1957. First Supplement 1962. (Sweet & Maxwell, 84s and 12s 6d.)

Registration of Commercial and Licence Agreements in the Common Market; by A. K. Lewis and J. A. Kemp. 1962. (Butterworths, 30s.)

The Rule Against Perpetuities; by J. H. C. Morris and W. B. Leach: second edition. 1962. (Stevens, 70s.)

Sampling Tables for Estimating Error Rates or Other Proportions; by R. G. Brown and L. L. Vance, Berkeley, California. 1961. (University of California, 56s.)

Storage and Control of Stock for Industry and Public Undertakings; by A. Morrison. 1962. (Pitman, 30s.)

Studies in Accounting Theory: second edition edited by W. T. Baxter and S. Davidson. 1962. (Sweet & Maxwell, 63s.)

A Summary of Auditing Case Law; by E. M. Taylor, F.C.A.: eighth edition. 1961. (Textbooks, 8s 6d.)

Taxation in Western Europe 1962: a guide for industrialists: fourth edition. (Federation of British Industries.) 1962. (F.B.I., 30s.)

Tax Planning for the Family Solicitor; by J. P. Lawton. 1962. (Solicitors' Law Stationery Society, 15s.)

#### CONFERENCE ON DECIMALIZATION

A conference on decimalization of the currency is to be held in Guildhall, London, on Friday, October 12th. It is hoped that the Lord Mayor will open the conference, the speakers at which will include: Dr A. H. Hughes, Vice-Chairman of the Metric Committee of the British Association; Mr C. A. J. Martin, G.C., M.C., and Mr E. P. Jaggard, chairman and member, respectively, of the Metric System and Decimal Coinage Panel of the Association of British Chambers of Commerce; and Mr H. R. Reed, London manager, Standard Bank Ltd (formerly the Standard Bank of South Africa).

#### Programme

10 a.m. Official opening.

10.30 a.m. First session: Introduction to and history of the subject, with reference to possible systems; résumé of reports, comments and literature. including national and international aspects of the problem.

11.30 a.m. Second session: Reports on the experience of other countries which have recently adopted decimal coinage systems - particularly India

and South Africa.

2 p.m. Third session: Speakers will deal with problems to be overcome in industry and commerce in decimalizing the British currency, particularly in regard to banks, insurance companies, public utilities, local government, the retail trade, the Post Office and accounting machine manufacturers and users.

3.15 p.m. Question time: Questions from the floor will be answered by a panel of experts.

The conference is being arranged by The Chartered Institute of Secretaries primarily for members of the Institute, but interested members of kindred professional bodies will be welcome. The fee of three guineas includes morning coffee, buffet lunch and afternoon tea. Applications should be sent to the honorary secretary of the London Branch of the Institute, Mr J. H. Griffiths, A.C.I.S., 8 Ely Place, Holborn, London ECI.

#### STAMPING OF FOREIGN INSURANCE **POLICIES**

Under the Finance Act, 1962, a policy of insurance (other than a policy of life insurance) executed abroad and first received in this country on or after August 1st, 1962, may be stamped with a 6d adhesive Postage Revenue' stamp within thirty days of such receipt. The stamp must be cancelled by the person affixing it.

It is therefore no longer necessary to take or send such policies to an Inland Revenue Stamp Office for stamping unless impressed stamps are required.

#### DOUBLE TAXATION: PORTUGAL

The Double Taxation Convention with the United Kingdom and Portugal relating to shipping and air transport profits was ratified on July 10th, 1962, and has now been published as the Schedule to an Order in Council numbered S.I.1962 No. 1653.

#### FINANCE ACT, 1962

The Finance Act, 1962, was published this week and copies are obtainable from H.M. Stationery Office, price 5s 6d net.

#### ASSOCIATION OF INVESTMENT CLUBS

At the recent annual general meeting of the Association of Investment Clubs, which has its headquarters in Liverpool, Mr H. Macdonald Steward, Member of Parliament for Stockport, Mr T. T. Bennett, solicitor and treasurer of Bolton Investment Club, and Mr I. C. McAllester, A.C.A., of Manchester, were elected to the Council of the Association. They fill the vacancies caused by the retirement, at their own request, of Messrs C. C. Drews, J. Norton and R. A. Bailey who, since the formation of the company three years ago, have ably assisted it in its activities. The fourth member of the Council, Mr B. V. Groombridge, A.C.I.S., will continue to act as managing member.

The secretaries to the Association are Messrs William Chadwick & Co, Chartered Accountants, Pioneer Assurance Chambers, 31 Dale Street, Liver-

pool 2.

# THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

#### **Autumn Residential Course**

The autumn residential course for members of The Chartered Accountant Students' Society of London will take place at Balliol and Jesus Colleges, Oxford, from Thursday, September 20th, to Sunday, September 23rd.

The course is intended for those members of the Society who have taken their Intermediate examination. Over two hundred students have so far applied to attend, but there are still a few places for late applicants. The subjects of lectures and discussions are: 'Unit Trusts', 'In business with figures', 'Being a manager in industry', 'Why do we pay rates?' and 'Anglo-American relations'. Each lecture will be followed by group discussions and a final discussion with the lecturer at the end of each day.

The fee for the course is £6 10s and applications to attend should be addressed to the secretary of the Students' Society, Mr R. J. Carter, B.COM., F.C.A., Finsbury Circus House, Blomfield Street, London

EC2.

# CHARTERED ACCOUNTANTS' GOLFING SOCIETY

The Chartered Accountants' Golfing Society played its annual match against The Institute of Municipal Treasurers and Accountants at West Hill Golf Club, Brookwood, on Wednesday, July 25th. The course is an attractive and testing one, and was in excellent condition. In the morning the weather was ideal but in the afternoon a certain amount of thunder and lightning and some heavy downfalls of rain developed.

The teams consisted of four pairs each, and foursomes were played. At the conclusion of the morning round the result was  $2\frac{1}{2}$  to  $1\frac{1}{2}$  matches in favour of the Treasurers, but in the afternoon the Accountants retrieved the position by winning  $2\frac{1}{3}$  matches, and the contest ended all square. The results (Chartered Accountants' names first) were as follows:

#### Morning

- R. G. B. Drummond and J. V. Wilson lost to W. F. White and G. C. Jones, 2 and 1.
- H. W. Claxton and A. Coleman beat A. W. Mowbray and A. B. Ridley, 3 and 2.
- D. W. Gibson and E. Head lost to F. M. Walker and D. H. Crisp, 4 and 3.
- H. J. Finden Crofts and S. W. Penwill halved with B. Quick and T. Shaw.

#### Afternoon

- R. G. B. Drummond and H. W. Claxton beat W. F. White and A. W. Mowbray, 5 and 4.
- J. V. Wilson and A. Coleman beat G. C. Jones and D. H. Crisp 4 and 3.
- D. W. Gibson and H. J. Finden Crofts halved with A. B. Ridley and T. Shaw.
- E. Head and S. W. Penwill lost to F. M. Walker and B. Quick, r up.

#### CRICKET

The Birmingham and District Society of Chartered Accountants recently played the Birmingham and District Chartered Accountant Students' Society at Heathbrook, Wall Heath. The scores were as follows:

Students: 215 for 6 declared (J. Davis 81, J. Young 42).

Chartered Accountants: 84 for 6; rain stopped play.

# INSTITUTION OF WORKS MANAGERS New President Elected

Sir Bertram Waring, D.L., F.C.A., chairman and managing director of Joseph Lucas & Co Ltd, has been elected President of the Institution of Works Managers. He succeeds the Rt Hon. Lord Piercy, C.B.E., who has retired at his own request after holding the office for nearly ten years.

Sir Bertram has served as vice-president of the Institution for several years and is a past chairman of

the British Productivity Council.

#### COMMON MARKET BOOKLETS

In last week's issue, page 158, the price of a booklet entitled *The Treaty of Rome* – the first of a series on the European Economic Community published by the Federation of British Industries – was given as 2s. The price is 10s.

The second booklet in the series, Restrictive Trade Practices and the European Economic Community has

also been published, price 10s.

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# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

#### RESULTS OF EXAMINATIONS HELD IN MAY 1962

#### FINAL EXAMINATION

Held on May 29th, 30th and 31st and June 1st, 1962

#### Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize, the W. B. Peat Medal and Prize, the Frederick Whinney Prize and the Plender Prizes for the papers on Taxation (equal with one other), General Financial Knowledge, Cost and Management Accounting and English Law (Parts I and II)

Chadder, Roger Vivyan James (R. G. Leach), London

Second Certificate of Merit, the Walter Knox Scholarship, the William Quilter Prize and the Plender Prizes for the papers on Auditing and Advanced Accounting (Part II)

Morris, David Edward Alban (H. Peat), London

Third Certificate of Merit and the Charles M. Strachan Prize Kirby, John (W. R. Hunter), Widnes

Seventh Certificate of Merit Webber, Brian John (F. E. Worley), Chichester

Fourth Certificate of Merit
Philpot, Derek Edward (G. E. Morrish), London
Rajpar, Anverali Mohamedali (S. P. Quick), London

Eighth Certificate of Merit Shah, Navinchandra Chhaganlal (P. G. Wenham), London

Sixth Certificate of Merit Lane, John Albert (T. E. Entwistle), Liverpool Ninth Certificate of Merit Foss, Christopher John (M. Perkins), Bristol

## Full List of Names of Successful Candidates (In alphabetical order)

(The name shown in brackets is the name of the principal to whom the clerk has been articled. Where the name of the principal is not given the candidate is a former bye-law candidate of the Society continuing his qualifying service not under articles.)

(The name shown in brackets is the name of the principal to whom the candidate is a former bye-law candidate of the Soc Abercrombie, A. J. (S. P. Thomas), Solihull Acomb, N. M. (G. L. Kitchen), Keighley A'court, S. (G. E. Goodchild), Ipswich Acratopulo, P. A. (A. Johnson), Liverpool Adams, N. D. (E. H. King), Birmingham Adcock, A. P. (H. B. Brailsford), London Adey, J. B. (T. M. Threifall), Nelson Afia, P. M. (J. Harrison), London Aldington, T. R. (D. A. Jackman), London Aldington, T. R. (D. A. Jackman), London Allangton, T. R. (D. A. Jackman), London Allangton, T. R. (D. A. Jackman), London Allangton, T. R. (H. Burdon), Bradford Ambrosini, C. F. (A. Hornby), London Allum, A. R. (T. H. Burdon), Bradford Ambrosini, C. F. (A. Hornby), London Andrews, B. T. (D. J. Little), Cardiff Anjous, B. (C. H. Bradfield), Neath Annesley, R. B. (A. S. H. Dicker), Norwich Annison, R. (Sir Roland Jennings), Sunderland Archer, J. A. (D. E. Walker), Bradford Archer, W. R. V. (R. F. Hayllar), London Armstrong, D. P. (R. D. Thomlinson), Carlisle Arnold, A. J. (G. F. Ansell), London Armstrong, C. (formerly with W. F. Chaundy, deceased), Birmingham Ashby, N. C. (A. J. Seal), Hounslow Ashiq, M. I. (M. Van Straten), London Ashman, J. W. (H. G. J. Foulger), London Ashman, J. W. (H. G. J. Foulger), London Atkin, R. H. (J. G. G. Hesse), Birmingham Atkin, R. F. (R. Ballantine), London Bagot, D. W. (R. M. Peat), London

clerk has been articled. Where the name of the principal is not given by continuing his qualifying service not under articles.)

Barber, D. A. (R. Marks), London

Bardsley, V. R. (J. Jackson), Leeds

Barker, N. D. (A. E. Williams-Ashman), London

Barlow, S. L. (A. Hill), Douglas

Barnard, R. B. (Miss), (W. A. Barnard), Fareham

Barnes, C. L. (I. I. Calcott), Leamington Spa

Barrow, D. (A. H. Hamer), Hebden Bridge

Barton, J. G. (M. Moore), London

Basterfield, B. R. (T. A. Nicklin), Stourbridge

Basu, S. C., Calcutta

Bates, D. G. (F. J. Smith), London

Batty, C. M. (S. K. Stott), Manchester

Beauclerk, M. de V. (T. G. Threlford), London

Beavis, M. J. (S. W. Becker-Jones), London

Beckert, S. C. (P. S. Lane), London

Beckert, D. C. (J. D. Liggatt), London

Beeny, D. J. (D. Hedges), Banbury

Beirne, J. (W. Hobson), Manchester

Belifield, R. J. (C. P. Mabbs), London

Belfield, R. J. (F. Webb), Manchester

Bell, B. (I. Griffiths), Cardiff

Bell, J. G. K. (J. W. G. Cocke), London

Bellamy, M. H. T. (J. H. G. Maltby), London

Bellamy, M. H. T. (J. H. G. Maltby), London

Benn, K. J. F. (B. W. Brixey), London

Bellamoria, J. H. (A. F. Norman), London

Binmore, J. S. (J. H. Hewitt), Nottingham

Bird, B. J., Tumbridge Wells

Bishop, J. W. (H. T. Easdale), London

Blackmore, D. (J. F. Moore), Liverpool

Blackmore, R. J. (C. Wild), Dorchester

Blakebrough, D. C. (R. I. Skeet), London

Bodender, J. A. (M. Gordon), London

Bodender, J. A. (M. Gordon), London

Bodender, R. A. (R. W. Minns), Birmingham

Bolton, R. J. (G. R. Freeman), London

Boon, A. B. (formerly with B. F. Newill, deceased), Leicester

Borneman, R. G. (J. E. Talbot), London

Bagot, D. W. (R. M. Peat), London
Baker, J. E. (formerly with E. Boden, deceased), London
Baker, K. G. (J. C. S. Ferguson), London
Ball, D. W. (H. S. R. Harrison), Redditch
Balmforth, K., Bradford
Bambrough, R. A. (G. C. F. Shackleford), London

Bose, P. (J. Godfrey), London
Bottomley, D. H. (P. W. P. Knowles), London
Bottomley, T. (formerly with F. L. Kilby deceased), Brighouse
Bowden, P. R. (J. V. Eastwood), Manchester
Bowen, J. H. (E. C. Griffith), Watford
Bowen, W. J. (D. P. Newell), Kidderminster
Bower, C. D. (K. Davison), Bradford
Boyer, J. A. G. (P. W. Barrows), Birmingham
Bradford, M. (R. E. Beckett), Walsall
Bradley, G. P. (W. R. Yaxley), Shrewsbury
Bradshaw, I. R. (formerly with E. L. Hope, deceased), Accrington
Braide, W. G. (D. O. Johnston), London
Branch, N. M. (H. J. Binder), London
Branch, N. M. (H. J. Binder), London
Brandley, G. T. (D. W. Stirling), Birmingham
Broadley, G. J. (W. W. Howarth), Oxford
Broderick, J. M. (N. Townend), Goole
Bromwich, M. T. (P. A. H. Bromwich), Leicester
Broster, J. H. (A. Harper), Preston
Brown, C. R. (S. Higham), Manchester. (Plender Prize for the
paper on Taxation (equal with one other))
Brown, G. H. (T. R. T. Bucknill), London
Brown, J. G. (W. B. Holden), London
Brown, J. M. (H. M. Crawford), Colchester
Bryan, A. H. P. (L. J. Newey), Romford
Buchanan, A. J. (H. J. Watkins), London
Buck, R. I. (N. Rutter), Liverpool
Buckton, R. M. (E. J. R. May), London
Bullman, D. J. (A. W. Garnier), London
Bumstead, E. L. (D. B. Nurden), London
Butterworth, F. E. (P. G. Gadd), Colwyn Bay
Butterworth, M. S. (R. M. M. McLaren), London

Butterworth, F. E. (P. G. Gadd), Colwyn Bay Butterworth, M. S. (R. M. M. McLaren), London

Caidy, J. (T. G. Hendy), Buntingford
Caidan, R. P. (P. J. Melhuish), London
Cain, D. B. (S. Goldwater), London
Calvert, T. G. (H. W. Thomas), Swansea
Campbell, A. M. (J. A. Mitchell), Carlisle
Cardew, R. M. D. (V. F. Berry), London
Carter, B. E. M. (R. A. Langridge), East Grinstead
Cartwright, J. M. (J. H. Maunder), Dorchester

Chadder, R. V. J. (R. G. Leach), London
Chadwick, H. (J. B. Dunn), Manchester
Chalkley, C. J. (W. H. Eldridge), Chelmsford
Chambers, R. E. (T. Ashton), Nottingham
Chapman, R. A. (Miss), (H. A. Kinney), London
Charlton, D. H. (F. E. Proom), Newcastle upon Tyne
Chaudhry, D. K. (B. J. Ducker), London
Chedzey, A. C. (L. G. Mason), Bridgwater
Cheetham, B. (M. A. Crick), Peterborough
Chetwynd, R. W. (K. F. Steven), London
Chid, J. H. (C. J. Robinson), London
Churchill, C. R. W. (C. A. Leat), London
Clarke, A. (L. G. Winfield), Sheffield
Clarke, B. (J. A. D. Fox), London
Clarke, G. A. (B. Gilbert), London
Clarke, J. H. (J. D. W. Marle), Bristol
Clarke, J. M. (E. E. Burridge), Bristol
Clarke-Maxwell, J. W. (J. P. Coatsworth), London
Clarke, J. M. (E. E. Burridge), Bristol
Clarke-Maxwell, J. W. (J. P. Coatsworth), London
Clarkon, R. A. (formerly with H. Bowers, deceased), Manchester
Clitherow, C. (C. C. Taylor), Liverpool
Cobley, B. A. (J. K. Burton), Leicester
Cochrane, J. A. (W. R. T. Whatmore), London
Cockayne, J. J. (K. H. Littlewood), Sheffield
Cohen, A. J. (S. Cohen), London
Cole, A. E. (P. F. Rendell), Bristol
Cole, M. (F. E. Watson), Leicester
Coleman, A. B. W. (D. C. Howarth), London
Coles, R. B. (A. R. King-Farlow), London
Coles, R. B. (A. R. King-Farlow), London
Colleng, W. J. B. (J. A. Brier), Chesterfield
Colley, A. R. (P. R. Wilde), Torquay
Collier, N. M. (A. T. Reed), London
Collinson, P. A. (M. A. Coates), Newcastle upon Tyne
Connelly, G. O. (A. F. Pownall), Manchester

Cooke, P. P. (L. Moore), London
Copley, W. B. (K. H. Glossop), Sheffield
Corker, E. (R. L. Emmitt), Sheffield
Corps, J. E. (H. M. Lepper), Northampton
Cottrell, R. L. (G. E. S. Twist), Birmingham
Coulson, J. P. (S. Barlow), Manchester
Coulston, P. J. (C. V. Smith), Cheltenham
Cowper, I. R. (H. Peat), London
Crawhall, J. M. (F. M. Kellett), Newcastle upon Tyne
Creasey, J. S. (E. J. Furniss), London
Crellin, D. (E. J. Nettle), Birmingham
Croft, J. D. (A. G. B. Drabble), London
Crook, E. (R. C. Lovejoy), Blackburn
Crooky, G. (A. C. Croft), Hull
Crossland, M. (F. Hall), Leeds
Crowther, T. A. (T. G. Burton), Hull
Croxton, G. R. (G. H. Heaton), Birmingham
Cunliffe, G. V. (D. A. Huggons), London
Curtis, W. J. (W. L. Dunn), Nottingham
Cusk, P. J. (C. A. Solly), London

Dack, D. (F. G. A. Cooper), Wisbech
Dain, J. S. (R. Piercy), Birmingham
Dallow, A. T. (H. G. Pinner), Wolverhampton
Dalton, I. (H. Bolton), Leeds
Daly, P. A. (H. N. Wylie), London
Das, S. K. (L. Bloch), London
Dastoor, V. K. (H. Wadie), London
Davey, B. C. (formerly with N. E. H. Woodhouse, deceased),
St Austell
Davies, B. P. R. (C. P. Tiptaft), Mexborough
Davies, D. L. (K. H. Robinson), Port Talbot
Davies, D. L. (K. H. Robinson), Port Talbot
Davies, T. V. (A. Parker), London
Davis, B. A. (J. Radstone), London
Davis, J. M. G. (H. G. Mack), London
Davis, J. M. G. (H. G. Mack), London
Davis, J. M. G. (H. G. Mack), London
Dean, G. (C. A. Brisley), London
de Mesquita, V. J. G. (A. I. Miller), London
Densem, J. C. (J. Blakey), Manchester
Dillsworth, R. A. H. (M. I. Gee), London
Dixon, C. S., Birmingham
Dolly, B. P. (R. A. Stevens), Wolverhampton
Donovan, C. D. (C. Romer-Lee), London
Downer, M. (F. W. Berringer), Bromley
Drewell, A. (D. T. Veale), Leeds
DuBuisson, P. W. G. (P. L. Eynon), London
Duckett, J. E. (W. R. Heatley), Coventry
Duerden, M. P. (G. D. Whipp), Accrington
Dugard, C. R. (C. W. Bingham), Nottingham
Dunhar, D. R. M. (R. W. N. Payne), London
Dunham, G. J. (F. Pittock), London

Eaton, A. F. (H. J. Binder), London Edwards, A. (H. W. Vaughan), Swansea Edwards, E. W. G. (P. H. Martin), London Edwards, J. C. (J. K. Macrae), London Edwards, W. R. (H. A. R. J. Wilson), London Edles-Hill, W. J. (S. P. Hogg), London Epps, J. E. (C. G. Larking), Maidstone Epstein, A. J. (A. B. L. Murison), London Essex, B. D. (J. Harrison), London Etchell, R. (G. A. Smith), London Etchell, R. (G. A. Smith), London Etchell, R. (H. Moss), Coventry Evans, B. J. (K. H. Moss), Coventry Evans, D. H. B. (T. A. Clark), Wrexham Evans, J. T. (R. Gibb), Swansea Evans, T. C. (G. H. Brown), London Evenden, I. S. (A. C. Croft), Hull Everatt, T. G. (D. Bolton), Manchester Eweka, A. O. (R. W. Slowman), London

Factor, D. (P. A. G. Mullens), Port Talbot Faiers, P. C., London Farmer, J. D. (S. J. Gunby), Leicester Farnill, F. (S. D. Moore), Hull Farrar, R. G. (H. K. Easton), Birmingham Farrow, G. (A. H. Smith), Spalding Faulkner, N. S. C. (P. E. Hall), Nottingham Fea, R. W. B. (W. H. Lawson), London Featherstone, P. L. (A. Blythe), Derby Fellows, R. D. (J. S. Holloway), Wolverhampton

#### THE ACCOUNTANT

Ferguson, B. (Miss), (J. W. G. Cocke), London Fermor, F. H. (R. S. A. Donnithorne), London Field, D. B. M. (S. W. Ehret), Birmingham Field, T. H. E. (D. J. Keen), London Fifield, L. E. (J. Jeffery), London Fisher, J. T. (L. K. Wootton), Winchester Forster, J. M. (H. Wilcock), London Forster, R. J. (G. C. Peat), London Forster, R. J. (G. C. Peat), London Forstyth, N. C. (L. Shaw), Manchester \*Poss, C. J. (M. Perkins), Bristol Foster, B. T. E. (C. W. Smith), London Foster, G. R. (A. R. H. Mullett), West Bromwich Foster, M. J. (J. J. Longland), Portsmouth Fowler, B. G. (T. R. Morris), Cardiff Foxley, M. J. C. (P. F. Keens), Luton Francis, P. I. (D. Steele), Bradford Freedman, M. (E. Freedman), Leeds Freeman, W. R. (F. A. M. McDanell), London French, P. J. (D. P. Briggs), Middlesbrough Friend, H. J., London

Gait, C. D. (G. H. Fletcher), London
Gallagher, J. (G. W. Murphy), Manchester
Gamble, R. A. (I. H. Wilkins), London
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Gardiner, R. J. (A. F. R. Payne), Stroud
Garnham, G. W. (J. F. Atkinson), London
Garrett, J. E. (G. H. Kingsmill), Swindon
Gazzard, R. M. D. (M. St A. Moore), London
Gearing, E. W. (W. L. Thurgood), London
Gearing, E. W. (W. L. Thurgood), London
Gee, C. J. (J. Lamo), Newcastle upon Tyne
Gellman, R. D. (G. H. W. Delderfield), London
Gent, P. (J. D. Russell), London
Ghilchik, A. C. (W. McD. Morison), London
Gibson, G. R. (L. Gibson), London
Gibson, G. R. (L. Gibson), London
Gibson, J. F. O. (V. A. Tudball), London
Gibson, M. J. B. (R. G. Howell-Jones), London
Gillings, B., Leeds
Gledson, J. N. (P. Cooper), Newcastle upon Tyne
Goadby, R. (S. R. M. Hatson), Hinckley
Godbehere, A. K. (H. Hebblethwaite), Sheffield
Goddard, A. M. (formerly with H. S. Critchley, deceased),
Oxford
Godden, N. R. B. (T. A. Tansley) London Goddard, A. M. (formerly with H. S. Critchley, Oxford
Goddard, A. M. (formerly with H. S. Critchley, Oxford
Godden, N. R. B. (T. A. Tansley), London
Gold, H. (G. Selby), London
Gooding, R. K. (R. H. Taylor), Bury St Edmunds
Goodman, D. (H. I. Jacobs), London
Gosey, G. T. (F. Nash), Kettering
Gordon, C. N. (N. K. Allen), London
Gordon, K. W. (W. Wilson), Cheltenham
Gordon, S. (C. A. Chapman), London
Gorst, W. (T. J. Scott), Lancaster
Gough, L. J. (P. T. Muggison), Leicester
Gough, M. J. (D. E. Caird), London
Govier, J. M. (G. P. H. Smith), Exeter
Gowshall, J. B. (S. V. Turner), Manchester
Gracey, J. G. A. (F. E. Francis), Leamington Spa
Grant, R. (W. W. Powell), Leeds
Gray, P. L. M. (E. J. Furness), London
Grays, F. L. (J. Auerbach), London
Green, M. H. (J. L. Bird), Brentwood
Green, M. H. (J. L. Bird), Brentwood
Green, M. L. (R. Bibby), Manchester
Greenaway, B. H. (M. C. Pearce), Southsea
Greener, H. T. (A. H. Lawrence), Cardiff
Gregory, R. A. (R. G. Watkins), Northampton
Grimwade, D. R. (J. R. Tovey), Reading
Grinyer, J. R. (E. F. Tuffrey), London
Grist, R. T. (R. J. Wheeler), Tunbridge Wells
Groves, J. B. (C. Mead), Southport
Growcott, T. E. (D. R. Fendick), Manchester
Gruncell, F. E. J. (B. R. Pollott), London
Gunn, J. S. (S. Hockey), Newport, Mon
Gupta, C. (G. L. Bloom), London Oxford

Haig, G. D. (D. Oakes), Liverpool Hakim, P. G. (A. B. Side), Rickmansworth Hall, J. D. (V. R. V. Cooper), London Hall, J. H. (R. R. Pickering), London Hall, P. A. (J. F. Allan), Liverpool Hamilton, R. C. (E. J. J. Booy), Cardiff Hannah, D. G., Coventry
Hannigan, T. K. (H. V. Davies), London
Harding, M. J. (E. F. G. Whinney), London
Harding, M. J. (E. F. G. Whinney), London
Hardy, R. O. (L. L. Moore), London
Hargy, R. O. (L. L. Moore), London
Hargy, S. M. (W. R. Heatley), Coventry
Harper, J. (P. A. Bridger), Birmingham
Harrison, A. C. (W. H. Smith), Sunderland
Harrison, D. C. (E. G. Turner), Manchester
Harrison, G. (C. L. Davies), Leeds
Hartley, T. J. (J. W. Richardson), Sheffield
Harvey, J. L. (F. Warren), Camborne
Hatvany, P. I. (M. J. Bowman-Vaughan), London
Haughton, J. G. (M. G. Bain), Grimsby
Hawkins, A. W. (A. A. Redwood), Bristol
Haworth, P. V. (G. A. Bell), Manchester
Haworth, T. G. (G. L. Wiener), London
Hayhoe, A. J. (K. J. Salter), Bognor Regis
Haynes, R. J. (W. G. Milton), London
Heny, A. T. (E. Williams), Derby
Henty, A. A. (J. D. King), London
Henry, A. T. (E. Williams), Derby
Henty, A. A. (G. Cassick), Manchester
Hesketh, B. R. C. (G. S. Beesly), London
Herberts, A. A. (F. Merchant), Nottingham
Herman, E. A. (G. Classick), Manchester
Hesketh, B. R. C. (G. S. Beesly), London
Heyworth, R. L. (W. Hobson), Manchester
Higham, T. (L. R. Binns), London
Hill, L. F. (D. W. Jennings), Bristol
Hill, M. G. C. (R. C. Murch), London
Hillman, L. (W. F. C. Marwood), London
Hillman, L. (W. F. C. Marwood), London
Hillman, L. (W. F. C. Marwood), London
Hillman, L. (W. S. Rainbow), Newcastle upon Tyne
Hooper, A. M. (J. Hackett), London
Hornor, H. G. (D. A. P. Gould), Norwich
Hornor, C. C. A. G. Arnfield), Manchester
Hosomer, M. J. (D. Mahony), London
Homand, C. G. (W. E. Spre), Manchester
Hudson, J. R. L. (L. Rank), York
Hudswell, R. F. (T. R. Keens), Luton
Hughes, R. A. (M. L. L. Rank), Huton
Hughes, R. A. W. (W. L. Solon), Worcester
Hundson, J. R. L. (L. Rank), Huton
Hughes, R. A. W. (J. Lech), London
Hurshad, H. (D. R. Carston), Cardiff
Ives, G. (J. W. Gibson), Hull

Irshad, H. (D. R. Carston), Cardiff Ives, G. (J. W. Gibson), Hull

Jack, A. W. D. (H. W. Bankes), Liverpool Jackson, A. G. (K. W. Johnson), London Jackson, D. (A. H. Kirkman), Oxford James, M. J. (F. J. Trevers), London Jayamaha, D. C. N. (N. T. Bell), London Jayamaha, D. C. N. (N. T. Bell), London Jayes, A. P. (P. Cozens), Walsall Jeffery, M. C. (J. B. Fletcher), Hull John, D. S. (E. T. Shepherd), Cardiff Johnson, A. D. (E. R. Bosley), Birmingham Johnson, A. J. (R. A. Barsham), London Johnson, D. J. C. (P. I. Addison), Birmingham Johnson, D. R. (C. H. Appleby), London Johnson, E. C. (G. G. Owens), Liverpool Jollie, P. E. J. (H. D. Barnard), London Jones, C. E. (J. R. P. Broadhouse), West Bromwich Jones, M. F. (K. P. Pool), London Jones, M. F. (K. P. Pool), London Jones, M. L. (W. R. Holden), Hull Jordan, J. P. (R. S. Gordon), Manchester Jowett, D. V. (R. H. Clements), London Jowett, J. P. (J. S. Cooke), Birmingham

Kanter, C. (J. S. Muir), London Kay, A. W. (W. T. R. Masterson), London

Kelly, J. T. (F. Hall), Leeds
Kendall, D. W. (P. A. Stuttard), London
Kennard, D. T. (L. F. Durman), London
Kennard, D. T. (L. F. Durman), London
Kennedy, M. (C. R. Riddington), Leicester
Kevan, D. M. (N. G. Willis), Liverpool
Khan, I. H. (J. Henderson), Liverpool
Kidby, C. E. (G. G. Wight), London
Kimber, D. E. (F. J. Chivers), London
King, I. A. (W. R. Doherty), Birmingham
King, R. E. V. M. (W. E. Parker), London
Kingsman, J. A. (F. G. Harris), Oxford
Kingsmell, J. C. (R. F. George), London
Kington, N. S. (W. M. Morison), London
Kington, N. S. (W. M. Morison), London
Kinning, J. (E. S. Hall), Solihull
Kirby, J. (W. R. Hunter), Widnes
Kirkby, D. (T. Bedford), Leeds
Kirssack, P. R. (D. R. Fendick), Manchester
Kitson, R. J. (H. Stones), Hinckley
Knight, M. J. (formerly with A. R. Knight, deceased), London
Knight, P. C. (Mrs), (B. A. Reynolds), Ashford, Kent
Knight, P. J. (W. C. Jones), Shrewsbury
Knowles, G. M. (R. C. C. Rawlins), London
Kusmirak, M. S. (P. J. C. Vincent), London
Kwan, R. C. Y. (D. A. Jacobs), London

Kusmirak, M. S. (P. J. C. Vincent), London
Kwan, R. C. Y. (D. A. Jacobs), London

Lachelin, T. P. H. (J. T. Corbett), London
Lacon, P. J. (R. A. Stevens), Wolverhampton
Lahiri, C. S. (D. P. Chatterjee), Calcutta
Lake, M. E. (R. W. Wheeler), London

Lane, J. M. (C. H. S. Lewis), London
Lane, J. M. (C. H. S. Lewis), London
Langley, D. J. (G. C. G. Hector), Brighton
Lawrence, C. J. Le M. (C. R. P. Goodwin), Brighton
Lawrence, C. J. Le M. (C. R. P. Goodwin), Brighton
Lawrence, C. J. Le M. (C. R. P. Goodwin), Brighton
Lawrence, C. J. Le M. (C. R. P. Goodwin), Brighton
Lawrence, C. J. (E. D. McMillan), London
Layzell, D. J. (E. D. McMillan), London
Lazzus, B. J. (A. Gross), London
Lezake, J. D. (L. J. Sparshott), Birmingham
Lederman, C. S. (C. Murray), London
Lee, P. J. (J. P. Blows), London
Lee, P. J. (J. P. Blows), London
Leegett, F. I. (F. L. Wyatt), Manchester
Leigh-Pollitt, G. A. P. (H. M. Clutton-Brock), Newbury
Lennard, E. C. (A. H. Marshall), London
Lever, J. B. (R. A. Heys), Manchester
Levy, W. C. (S. Young), London
Lewis, K. C. (A. R. Chapman), Newcastle upon Tyne
Lewis, M. E. G. (C. H. Maggs), Bristol
Lewis, R. (W. A. Richardson), Nottingham
Li, K. T. (A. E. Harrison), Liverpool
Line, M. A. (G. L. Couch), Uxbridge
Lippa, C. M. (H. P. Jones), Liverpool
Livesley, R. (W. P. Scowcroft), Liverpool
Livesley, R. (W. P. Scowcroft), Liverpool
Livesley, R. (W. P. Scowcroft), Liverpool
Lioyd, A. J. (W. K. Wells), London
Lock, C. J. (E. T. Shepherd), Cardiff
Locke, A. P. (R. E. Coates), London
Lockwood, D. W. (N. D. Taylor), Sheffield
Lomas, P. F. (S. Whittingham), Manchester
Loney, K. E. (E. R. Siddle), Taunton
Lonnen, J. V. (W. E. Emms), London
Love, R. W. (A. M. Baker), Wolverhampton
Lowden, A. G. (E. Hurndall), London
Love, J. P. T. (W. H. Parton), London

McCann, R. H. (O. B. T. Bennett), Oxford McCarthy, P. H. (A. Popplewell), Buxton McDonald, T. (F. Hall), Leeds .
McDonnell, M. J. (J. C. Pyne), London McEvoy, P. H. (R. A. Eccleston), Manchester McGaw, G. W. (R. Winn), Newcastle upon Tyne MacIver, L. K. (H. O. H. Coulson), London Macleod, D. F. (E. R. Hogg), London McPhail, M. D. (A. R. Stacy), London McPhail, M. D. (A. R. Stacy), London McWhinnie, C. D. (S. Edgcumbe), Plymouth Magson, N. J. (D. L. T. Creer), York Malin, A. (H. W. Pratt), Wellingborough Mallinder, E. J. L. (G. H. Dodsworth), London Martin, J. R. G. (N. McLaren), London Masters, H. J. (J. S. L. Springbett), London Maw, G. H. (T. G. Burton), Hull

May, A. W. (F. J. B. Gardner), London
May, J. G. (E. C. Meade), London
Mayger, I. B. (W. J. N. Sherratt), Chester
Meakin, B. (G. S. Limb), Mansfield
Meek, J. E. (R. Langdon-Davies), Oxford
Meggitt, D. K. (W. J. Newton), Birmingham
Mehta, Z. M. (H. V. Davies), London
Mercer, H. (B. L. Monahan), Swindon
Mercerith, R. W. (S. R. M. Hatson), Nuneaton
Merrett, K. J. (M. L. Grant), London
Meston, G. M. (Miss), (J. B. Sweeney), London
Meston, G. M. (Miss), (J. B. Sweeney), London
Midwinter, H. E. (A. H. Kirkman), Oxford
Miles, P. T. (D. H. C. Tonks), Birmingham
Mills, A. W. (T. A. Morton), London
Mills, G. M. E. (K. H. Littlewood), Sheffield
Milston, J. (D. E. Hope), London
Mitchell, M. J. (C. Romer-Lee), London
Mitchell, M. J. (C. Romer-Lee), London
Moffat, T. M. (H. W. Bramley), London
Moffat, T. M. (H. W. Bramley), London
Montague, H. C. (J. H. Maunder), Dorchester
Moore, C. A. (T. B. Murtland), Leeds
Moore, K. J. (A. G. Hirst), Liverpool
Moore, M. R. (R. J. Davies), London
Morgan, J. H. (I. C. Paterson), London
Morgan, J. H. (I. C. Paterson), London
Morrell, M. C. E. (L. T. Eyles), London
Morrell, M. C. E. (L. T. Eyles), London
Mors, J. N. (J. D. Green), London
Moss, J. N. (J. D. Green), London
Moss, R. (E. Noble), London
Montay, D. R. (R. B. Dixon), Birmingham
Murray, D. R. (R. B. Dixon), Birmingham
Murray, D. R. (R. B. Dixon), Birmingham
Murray, M. I. (W. Rankin), Liverpool
Murray, N. S. (A. B. Southerns), Wolverhampton
Myessey, M. A. (M. J. Makin), London
Navesey, M. A. (M. J. Makin), London
Navesey, M. A. (M. J. Makin), London

Nash, D. P. (V. A. Scott Goddard), London Navesey, M. A. (M. I. Makin), London Nesbit, D. N. (L. I. Brisgal), London Nezam, M. (A. L. Low), London Nicholls, M. R. G. (E. D. Jehring), London Nicholson, D. B. (W. L. Nicholson), London Nicholson, D. B. (W. L. Nicholson), London Nicolaou, A. (J. L. W. Ahearn), London Norris, B. G. (T. R. Shenton), Blackpool North, B. E. (H. Rose), London North, D. I. (J. L. Wilson), Leeds North, P. M. (H. Kirkby), Bradford Nutt, D. N. (C. Halpern), London Nyman, E. M. (T. H. M. Baird), London

O'Callagan, P. J. (A. J. Barsham), London Oldrey, A. D. G. (R. A. Palmer), Northampton Olney, C. R. (W. F. Curtis), Exeter Onochie, S. C. (F. W. Lincoln), Shoreham-by-Sea Oratis, J. P. (E. J. Wade), London Osborn, D. W. T. (J. F. Aitchison), London O'Sullivan, D. J. (F. W. Charles), London O'Toole, K. B. J. (H. A. Astbury), London Oury, B. R. (W. H. Oury), Slough Oury, G. V. L. (P. A. C. Vincent), London Ouston, M. C. G. (S. R. Pote), London Owen, J. K. H. (L. L. Moore), London

Page, P. H. (D. M. D. Raper), London
Palmer, I. A. (J. J. Longland), Portsmouth
Parkinson, F. (H. G. Cooper), London
Parr, K. J. (A. S. John), Pontypridd
Parsons, I. R. (G. Bowyer), London
Parton, K. A. (A. L. Blower), Wolverhampton
Paton, D. B. (P. Bennett), Manchester
Payton, D. (T. W. Frith), Leicester
Pearce, D. J. (A. L. Westbury), London
Pearson, L. (Miss), (D. H. Ortmans), London
Penfold, A. A. F. (R. H. Diaper), London
Peyton, P. A. J. (E. R. Nicholson), London
Philpot, D. E. (G. E. Morrish), London
Pickford, R. (N. L. R. Trounce), Manchester
Picton, B. L. (E. C. Griffith), Watford
Pierpoint, A. M. (H. F. Davis), London
Pigott, F. J. S. (J. F. Ray), Oxford
Pike, N. (J. B. Harrison), Grimsby

Pilling, K. (E. W. Manssuer), Warrington Pitt, R. W. L. (A. J. Leach), Hereford Pitt-Payne, M. G. (J. F. Aitchison), London Porter, A. R. (D. A. Bussell), London Poulsom, J. R. (J. M. Howarth), Bolton Powell, A. M. (C. E. Peers), London Powell, J. L. (C. E. Corney), Birmingham Powley, A. T. (R. M. Bradburn), Liverpool Preston, A. (D. R. Fendick), Manchester Price, B. D. (T. G. Harding), London Pritchard, K. H. (E. A. Knowles), Manchester Pullan, H. (H. Anderson), Leeds

Pullan, H. (H. Anderson), Leeds

Radcliffe, J. (C. Connelly), Huddersfield
Radcliffe, P. H. (J. Whitehead), Leeds
Rainsford, F. C. (P. W. Farnsworth), Derby

Raipar, A. M. (S. P. Quick), London
Rambaut, T. A. (R. W. Gorman), London
Randeria, M. E. (M. I. Gee), London
Rapazzini, R. M. (R. A. Barter), London
Ratna, L. K. (D. S. Knight), London
Raven, P. L. (A. N. Hollis), London
Raven, P. L. (A. N. Hollis), London
Raven, P. L. (X. W. Hollis), London
Reveres, C. M. (S. Kriteman), London
Rickless, V. (J. Twist), Manchester
Rimington Wilson, H. L. (A. J. Heald), Brighton
Riseley, J. E. (J. A. Nicholson), London
Ritchie, J. G. (J. B. Martin), Liverpool
Roberts, A. T. (J. A. Sadler), Manchester
Roberts, J. C. (E. Painter), London
Robertson, R. D. (R. C. Collins), Margate
Robinson, K. A. M. (G. B. Mairs), Nottingham
Robson, D. J. (R. K. Dotchin), Newcastle upon Tyne
Robson, P. M. (K. F. Paine), London
Rogers, R. V., Redruth
Rollason, W. H. (W. E. Quance), Birmingham
Rolph, A. G. C. (S. G. G. Ohly), Hove
Rose, R. H. (R. Kettle), London
Rosenbloom, S. A. (C. Green), Manchester
Ross, A. M. M. (D. H. Ortmans), London
Rowe, K. F. A. (C. A. Harrap), Eastbourne
Rowland, M. L. (J. H. L. Davies), London
Rowlands, T. A. (R. C. de Zouche), Liverpool
Rowson, R. M. De C. (P. L. Nield), London
Roulands, T. A. (R. C. de Zouche), Liverpool
Rowson, R. M. De C. (P. L. Nield), London
Runton, D. K. (D. T. Veale), Leeds
Russell, E. W. (M. T. Coyne), Weymouth
Russell, R. C. (J. W. Saunders), London

Russell, E. W. (M. I. Coyney, Weymouth Russell, R. C. (J. W. Saunders), London

Sanger, K. J. (D. W. Malpas), Salisbury Sargeant, P. R. (P. G. Brown), Luton Sargent, A. C. (F. J. Hammond), London Saunders, N. J. (D. A. Blake), London Savile, D. W. (F. McD. Hall), London Savile, D. W. (F. McD. Hall), London Scarborough, T. W. W. (A. L. Poole), London Scawn, M. V. (L. G. Fetzer), Newcastle, Staffs Schanschieff, S. G. (B. A. Schanschieff), Northampton Schmid, R. A. (E. A. Harris), Bristol Schoon, P. J. (R. Mitchell), Preston Scott, M. E. B. (A. C. Simmonds), London Scourfield, D. H. (B. E. Brown), Cardiff Seale, A. J. (S. W. Percival), London Searle, J. F. (D. N. Smith), London Searle, J. F. (D. N. Smith), London Searle, J. F. (D. N. Smith), London Sedey, D. R. (A. D. Dinnen), London Sedey, D. R. (A. D. Dinnen), London Shababo, E. S. (E. Noble), London Shababo, E. S. (E. Noble), London Shaw, A. (R. Bibby), Manchester Shaw, A. (R. Bibby), Manchester Shaw, D. I. (W. E. Thompson), Manchester Shaw, K. A. (J. M. Grosse), Sheffield Sheppard, L. R. (V. C. Manolescue), Hounslow Silverthorne, M. J. (B. A. S. Soole), London Skae, J. R. (J. S. Udall), Stoke-on-Trent Skelding, W. E. (N. J. Wigley), Birmingham Slater, A. H. P. (E. F. G. Whinney), London Smith, A. N. C. (N. E. Bicker), Bournemouth Smith, C. E., Hull Smith, D. A. (M. G. R. Keeling), London Smith, D. P. (H. C. Cussons), Liverpool Smith, J. C. (J. B. Brierley), Oldham

Smith, J. C. (D. H. Burton), Wolverhampton
Smith, K. R. G. (D. B. Hirshfield), London
Smith, K. R. G. (D. B. Hirshfield), London
Smith, M. J. (J. B. Harrison), Grimsby
Smith, R. S. (O. L. N. Chambers), London
Soanes, D. C. J. (R. Gordon Smith), London
Solkhon, J. (J. Williams), London
Spence, P. A. (D. R. Brooks), Manchester
Spofforth, I. J. R. (R. F. Sumner), London
Spooner, J. D. (C. Romer-Lee), London
Spooner, J. D. (C. Romer-Lee), London
Spriggs, H. J. W. (G. A. Taylor), Kettering
Squire, C. J. (H. C. Mounsey), Liverpool
Squire, P. J. (B. Arnold), Watford
Stapley, B. F. G. (E. A. C. Jones), London
Steele, D. A. (A. K. Gill), Leeds
Stevens, G. F. (R. M. Matheson), London
Stewart, M. G. (W. R. Young), Canterbury
Stieber, A. D. S. (F. C. S. London), London
Stillwell, M. I. (E. M. Smith), London
Stillwell, M. I. (E. M. Smith), London
Stokes, P. M. (G. B. Pearson), London
Stokes, P. M. (G. B. Pearson), London
Stratford, D. N. (R. J. Munday), London. (Plender Prize for the
paper on Advanced Accounting (Part I))
Styles, B. J. (N. G. Adams), London
Sunderland, T. D. A. (L. B. Smith), Bradford
Summerfield, P. G. (W. M. Atwood), London
Sunderland, T. D. A. (L. B. Smith), Bradford
Swain, R. S. (A. Bush), Nottingham
Swift, J. B. (P. J. Gould), Sheffield
Sylvan, T. G. N. (A. M. Walker), London
Symons, E. (K. B. Clark), Sheffield
Taylor, C. J. G. (F. Crosland), Huddersfield
Taylor, C. M. K. (F. B. Paperson), London

Sylvan, T. G. N. (A. M. Walker), London Symons, E. (K. B. Clark), Sheffield

Taylor, C. J. G. (F. Crosland), Huddersfield Taylor, C. M. K. (F. B. Proctor), London Taylor, M. B. (J. W. Pickard), London Taylor, M. B. (J. W. Pickard), London Taylor, P. K. (P. Taylor), Doncaster Teare, J. A. (S. B. Smith), Liverpool Teesdale, P. (T. B. Quail), Nottingham Terras, C. R. (E. E. P. Maltby), London Terry, M. D. (S. Snowball), Leeds Thom, P. R. (B. W. Graves), London Thomas, H. (B. Morgan), London Thomas, R. N. B. (W. B. S. Walker), London Thompson, B. J. (D. B. Dawes), Manchester Thomson, D. R. (T. A. Tansley), London Thomton, M. (J. S. A. Peffers), Newcastle upon Tyne Thubron, P. J. (C. B. Hardcastle), Northwood Tidmarsh, A. C. B. (G. B. Judd), London Tidmarsh, A. C. B. (F. L. Moore), London Timgle, A. J. (E. D. Robinson), Scunthorpe Tiptaft, D. H. P. (C. P. Tiptaft), Mexborough Titford, D. S. (D. C. Howarth), London Tomlinson, A. G. (W. H. Minter), Brighton Tomlinson, A. G. (W. H. Minter), Brighton Tomlinson, A. G. (W. H. Minter), London Townend, P. (G. N. Fullagar), Liverpool Townsend, D. A. (R. Kettle), London Tricker, R. D. (G. F. B. Peirson), Coventry Trickett, I. D. (L. Ettling), Sheffield Turner, C. C. (T. R. Cubitt), London Twist, J. D. (B. G. McCarthy), Birmingham Tyrrell-Evans, N. J. T. (E. J. R. May), London Tysoe, J. (J. A. Wagstaff), Worcester

Ullmann, R. M. (D. J. Duthie), London Underhill, R. J. (K. A. Symons), London Uphill, T. E. (M. Sheppard), Maidenhead Urmston, E. (D. B. Voisey), Warrington

Vaile, I. L. B. (P. J. Butterworth), Bridgwater Vanner, D. R. (L. Ogden), London Vaughan, M. G. (E. R. Nicholson), London Vaughan, P. M. (F. S. Bray), London Verey, T. R. (A. Cowdy), Portsmouth Vickery, A. P. (B. A. Maynard), London Vinocourt, A. (A. R. Hunter), Wokingham Vogel, I. (R. Kay), Manchester

#### THE ACCOUNTANT

Wade, G. V. (G. S. Major), Birmingham
Wainwright, B. W. (C. Wallington), London
Wakefield, E. D. (A. D. McLaren), Leeds
Walker, G. R. (T. H. Parker), Manchester
Walker, C. (R. H. Martin), Cardiff
Welker, D. W. (S. Jackson), London
Walker, P. J. (J. L. Wannan), London
Walker, R. A. (R. W. Cross), Southampton
Wall, J. P. (E. D. McMillan), London
Wallace, D. J. (G. F. Huff), London
Wallace, D. J. (G. F. Huff), London
Wallace, D. J. (G. F. Huff), London
Walsh, G. R. (D. V. House), London
Walsh, P. B. (J. C. Hounsfield), London
Walters, R. M. (H. Peat), London
Walters, R. M. (H. Peat), London
Warten, J. (G. E. Lister), Huddersfield
Ward, D. J. (H. Astles), Manchester
Warland, E. P. (J. Spence), London
Watren, J. R. E. (J. W. M. Groves), London
Watren, J. R. E. (J. W. M. Groves), London
Watson, D. A. (G. A. Atkinson), York
Watson, E. R. (A. R. Adams), Birmingham
Watt, I. L. (formerly with E. D. Davies, deceased), London
Wax, R. J. (G. M. Bickerton), Manchester
Weene, C. E. (F. W. Finlay), Glastonbury
\*Webber, B. J. (F. E. Worley), Chichester
Weinstein, A. H. (A. Harris), London
Weiss, H. A. (B. V. Morris), London
Weiss, H. A. (B. V. Morris), London
Wests, R. E. M. (G. R. Smith), Grimsby
Westhead, A. (W. G. Wilson), Liverpool
Weston, D. M. (J. Mearns), London
Westwell, G. S. (H. C. Davie), Blackburn
Weyman, C. D. (J. E. K. Clarke), London
Whatley, D. V. (R. A. Edwards), London
Wheeler, P. K. (H. G. Sergeant), Hull
White, B. G. (D. W. Stirling), Birmingham
White, K. J. (G. F. H. Armson), Brighton

814 Candidates passed

Whitham, A. F. G. (C. M. Whitham), Halifax
Whittam, I. B. (R. H. E. Wilkinson), Manchester
Wick, D. A. (V. S. Gregg), London
Wickham, S. T. (J. D. Russell), London
Widd, G. (H. E. Coulthurst), Manchester
Wild, J. D. (J. M. Farraday), Bury
Wilkins, D. E. (O. B. T. Bennett), Oxford
Wilkinson, C. M. (C. H. Nathan), London
Wilkinson, J. M. (L. K. Wilson), Warrington
Wilkinson, M. J. (C. E. Corney), Birmingham
Willers, G. A. (J. Baldock), Grantham
Williams, B. P. (B. W. Brewer), London
Williams, D. W. (J. R. Morgan), London
Williams, J. G. (E. S. Walker), Birmingham
Williams, D. (G. C. Buckley), Stockport
Wills, B. (D. A. Bussell), London
Wilson, D. C. (A. H. Farquhar), London
Wilson, J. (D. F. Gay), London
Winson, J. (D. F. Gay), London
Winn, G. F. (E. R. Rapkin), London
Wong, F. F. W. (Miss), (L. R. Done), London
Wood, B. B. (G. T. Hills), London
Wood, E. H. (J. L. Wilson), Leeds
Wood, K. (C. Luxton), Bradford
Wood, P. J. (M. B. Hewitt), Leeds
Wood, W. H. L. (R. P. Winter), Newcastle upon Tyne
Woolley, J. S. B. (S. V. Lancaster), Birmingham
Worsley, M. D. (F. Woods), London
Wright, M. J. (J. R. Mead), Coventry
Wyatt, P. W. E. (J. B. Morewood), Chester

Yamakis, N. A. (J. R. F. Williamson), London York, J. T. L. (W. P. Scowcroft), Liverpool Young, B. W. (G. R. Fry), London

Zabell, B. N. (W. Hepburn), London

806 Candidates failed

#### INTERMEDIATE EXAMINATION

Held on May 22nd, 23rd and 24th, 1962

#### Certificates of Merit with Prizes Awarded

First Certificate of Merit, the Institute Prize, the Stephens Prize, the Frederick Whinney Prize and the Plender Prizes for the papers on Taxation and Cost Accounting, Auditing and General Commercial Knowledge
Rashid, Ahsan (R. F. George), London

Second Certificate of Merit Regan, Peter (E. A. Manning), Southend-on-Sea

Third Certificate of Merit, the Tom Walton Prize and the Plender Prize for the paper on Book-keeping and Accounts (Partnership) Brittain, David Charles (G. H. D. Evans), Weston-super-Mare

Fourth Certificate of Merit and the Flight-Lieutenant Dudley Hewitt, D.F.C., Prize Moore, Edward Andrew David (G. S. Digby), Colchester

Fifth Certificate of Merit Dyer, Christopher Roland (H. T. C. Reid), London

Sixth Certificate of Merit Gupta, Dhruba (G. M. Collier), Enfield

Seventh Certificate of Merit Treanor, John Charles (J. D. Hamer), Manchester

Eighth Certificate of Merit Loder, Edmund Jeune (P. G. Hounsfield), London

Ninth Certificate of Merit
Davis, Michael Richard (F. G. A. Flynn), London
Reiss, Joyce (I. B. Glickman), London
Tennant, John Stanley (D. F. Hopkinson), Birmingham

Twelfth Certificate of Merit Wall, Harold Leonard (C. Fisher), London

Thirteenth Certificate of Merit Hoddinott, David Michael (F. V. Hussey), Ipswich

Fourteenth Certificate of Merit and the Plender Prize for the paper on Book-keeping and Accounts (Limited Companies) Bowran, Roger Wilson (N. S. T. Squires), Stamford

Fourteenth Certificate of Merit Tidman, Duncan (W. A. Byars), London

Sixteenth Certificate of Merit
Cooper, John Edward (D. H. Whinney), London
Pollex, Anthony John (N. Lewis), Liverpool
Trott, Peter Michael (G. Ware), Taunton
Vernon, Roderick William Pomeroy (R. Philp), London

Twentieth Certificate of Merit Rook, Alan (T. R. Maltby), Leeds

Twenty-first Certificate of Merit Thomas, John Howard (H. W. Vaughan), Swansea

Twenty-second Certificate of Merit Garner, Michael Frederick (G. E. Morrish), London

Twenty-third Certificate of Merit Clowes, Charles Richard (F. Hulme), Leek Palmer, Bernard Marriot (B. B. Smith), London Thorne, Kenneth Frank (P. H. Gibbs), Bristol

Twenty-sixth Certificate of Merit Green, Richard Michael George (A. H. Marshall), London

Twenty-seventh Certificate of Merit Tilney, Robin Stenhouse (F. G. Tombs), London

Twenty-eighth Certificate of Merit Evington, Terence (A. Gooch), Hull

# Full List of Names of Successful Candidates (In alphabetical order)

(The name shown in brackets is the name of the principal to whom the clerk has been articled. Where the name of the principal is not given the candidate is a former bye-law candidate of the Society continuing his qualifying service not under articles.)

the candidate is a former bye-law candidate of the candidate is a former bye-law candidate of Abayawickrema, L. De S. (D. D. Mathieson), London Acosta, M. A. (N. C. Elliott), London Adams, H. (N. Tropp), London Adebiyi, R. A. (W. Pickles), Manchester Advani, S. P. S. (A. W. Coleman), London Agutter, R. D. (S. A. Forster), London Ahmad, A. J. (E. J. Driscoll), London Ahmad, A. J. (E. J. Driscoll), London Akpata, P. U. (H. R. Elliott), Worthing Al Askari, J. (P. C. Harrison), London Alers-Hankey, A. M. G. (J. P. Grenside), London Alexander, R. J. B. (V. S. Gregg), London Alkin, M. L. (S. Winograd), London Allan, R. D. F. (W. E. Quance), Birmingham Allen, A. T. K. (J. Bond), Southport Allen, D. W. (A. W. McBride), Middlesbrough Allfrey, P. C. S. (H. K. Campbell), Bristol Allison, J. (Miss), (L. Harrison), London Alton, R. (E. M. Butterworth), Derby Aminullah, K. M. (E. F. G. Nettleton), Bradford Anand, J. (R. H. Jassitt), Bristol Anderson, J. H. (J. A. Deed), London Andrews, R. D. (J. A. W. T. Morgan), Newport, IoW Angus, I. M. (P. Godfrey), London Ansari, M. (A. B. Lucas), London Ansari, M. (A. B. Lucas), London Arnold, J. N. (D. J. M. Horsley), Falmouth Appleton, K. (H. F. Smith), Liverpool Archer, G. S. H. (E. E. P. Maltby), London Arnold, J. N. (D. B. Evans), Hove Ashdown, D. J. (F. R. Paine), London Ashworth, G. H. (H. G. J. Foulger), London Atkin, C. (W. A. Snowden), Hull Atkin, J. R. (P. H. Palmer), Nottingham Atkinson, A. (P. J. Bethell), Stockton-on-Tees Ault, C. J. (S. Price), Gloucester Ayres, F. J. (A. J. Barker), Middlesbrough

Auit, C. J. (S. Price), Gloucester
Ayres, F. J. (A. J. Barker), Middlesbrough
Bagnall, J. K. (J. L. Simpson), Bradford
Bailey, M. H. (P. W. Lane), Waltham Cross
Bain, R. J. S. (D. J. Kean), London
Baker, A. C. (D. E. C. White), Bedford
Baker, F. F. (G. M. Collier), Enfield
Baker, G. S. (G. B. Jones), Evesham
Baldwin, T. J. L. (V. N. Strevens), London
Ball, D. O. (H. Darrell), Croydon
Ball, K. R. (M. H. Green), Southampton
Ballmer, R. G. (J. Farley), Bournemouth
Barclay, S. J. (L. W. Robson), London
Barker, D. N. (J. C. Hardy), London
Barlow, D. J. (B. G. McCarthy), Birmingham
Barnes, D. (R. T. Smith), Rhyl
Barnes, D. C. F. (S. R. Edwards), Kidderminster
Barnes, D. L. (F. W. Partridge), Reading
Barnes, K. H. (P. H. G. Evans), London
Barnett, D. J. (B. N. Antoine), Peterborough
Barnaley, J. T. (N. A. Wheatcroft), Sheffield
Barratt, D. C. (R. W. West), London
Barrett, H. L. (J. O. Bussell), Ilfracombe
Baths, M. R. (F. J. Goulding), Folkestone
Bath, S. J. (R. S. Gordon), Manchester
Battye, J. S. (P. C. Cardno), Bradford
Baylis, G. M. S. (R. F. Sumner), London
Beal, D. P. (W. Beck), Leeds
Beattie, A. R. W. (H. F. Thompson), London
Bedenham, M. J. (K. J. Milligan), Birmingham
Bedford, J. (D. L. Chaplin), Manchester
Bedford, R. W. (H. Price), Eastbourne
Beevers, M. W. (T. A. W. Littlechild), Penzance
Bell, G. (R. W. Allott), Rotherham
Bell, R. W. (F. E. Worley), Chichester
Benstar, I. E. J. (H. I. Jacobs), London
Bennetts, H. P. (F. Warren), Camborne
Benson, D. C. (T. F. Holman), Birmingham
Bentley, N. B. (M. C. Ainley), London
Benton, R. M. (W. L. Beeson), Grimsby
Bernard, H. G. (K. A. Jones), London

clerk has been articled. Where the name of the principal is new continuing his qualifying service not under articles.)

Best, A. E. (T. H. Burdon), Bradford
Betts, A. G. (B. W. Sutherland), Birmingham
Bevan, J. P. (F. W. Langley), Liverpool
Birch, M. A. (R. Davis), Swindon
Blackburn, B. M. (J. E. Sagar), Blackburn
Blackman, G. J. (J. H. Waring), Bolton
Blackwell, P. B. (J. W. Fawdry), Portsmouth
Blenkinsop, W. J. O. (E. R. Nicholson), London
Blower, J. S. (R. C. Hardy), Manchester
Blunt, B. F. (A. G. J. Horton-Stephens), Worthing
Boampong, S. A. (S. A. Fabes), London
Boatman, T. G. (F. J. Eves), Colchester
Bock, L. L. (L. H. Brazier), Southend-on-Sea
Boldy, A. D. (B. Sutcliffe), Brighouse
Bonner, T. C. (W. B. James), Birmingham
Booth, A. S. (S. V. Turner), Manchester
Borden, P. M. (D. C. Honey), Oxford
Botting, A. E. W. (W. C. W. Craig), York
Bowen, J. N. (R. H. MacIntyre), London
Bowler, P. B. (W. H. Thomas), Liverpool
Bowran, R. W. (N. S. T. Squires), Stamford
Boyle, M. J. (A. L. Poole), London
Bradburn, A. J. (J. V. Griffith), Manchester
Bradley, P. (L. Bray), Otley
Bramley, P. W. (J. D. Britton), Nottingham
Brierley, P. (H. Forster), Macclesfield
Brittain, D. C. (G. H. D. Evans), Weston-super-Mare
Broadhurst, P. (P. N. Greene), Chester
Brock, S. T. J. (H. E. Hill), Andover
Brodie, K. G. (K. G. Warriner), Leeds
Broughton, A. (L. G. Winfield), Sheffield
Brown, A. C. (D. R. Maddox), Bournemouth
Brown, A. K. (G. Hylton), Leeds
Brown, J. N. (E. F. Weston), London
Brown, J. R. (R. F. Hayllar), London
Brown, G. J. P. (D. W. Jennings), Bristol
Brunskill, D. (H. Snape), Manchester
Bryant, G. (H. B. Singer), Bridgend
Bryant, J. R. S. (J. T. Corbett), London
Burtham, B. L. (F. J. Trevers), London
Burtham, B. L. (F. J. Trevers), London
Burton, T. B. (D. E. Webb), London

Butcher, R. F. (G. M. Metcalf), Cardiff

Cahill, R. D. (A. W. Dalling), Brighton
Cain, A. G. (C. C. Bigg), London. (Plender Prize for the paper on Book-keeping and Accounts (Executorship))
Caldwell, J. M. (M. W. Wicks), Manchester
Cameron, I. N. (G. M. C. Crowder), London
Cam, M. H. (E. R. Hogg), London
Campion, C. J. (A. Cowdy), Portsmouth
Cant, A. P. (J. B. Martin), Liverpool
Cantor, D. E. (M. J. Lunzer), London
Cartor, D. E. (M. J. Lunzer), London
Carty, M. J. (T. H. Griffith), Slough
Carbutt, E. R. (H. Powys-Greenwood), London
Carratu, N. F. R. (J. H. M. Flew), London
Carter, J. A. (B. C. Cornes), London
Carter, J. A. (B. C. Cornes), London
Cartaer, J. A. (B. C. Lawrence), Birmingham
Cattell, J. D. (G. L. Aspell), Leicester
Catto, P. M. I. (P. Sober), London
Caulfeild, J. A. T. (R. K. Briscoe), London
Chantler, P. D. (A. G. Elliott), Harrow
Chapman, M. S. (I. L. Berry), Manchester
Chapman, P. L. (J. S. Sayer), Birmingham
Charles, J. H. (E. J. M. Bramley), Burton-on-Trent
Chenery, D. T. (A. E. Shaw), Norwich
Cherry-Downes, N. D. (E. D. London), Nottingham
e of Merit abové.

Cheyne, M. R. (N. M. Civval), London
Chilcott, D. L. (F. G. F. Drake), Bridgwater
Chivers, P. (R. L. B. Guettier), London
Christofi, H. (L. Irvine), London
Clark, B. J. (F. J. Trevers), London
Clark, E. A. (S. W. Bayliss), Oxford
Clark, J. H. (K. S. Holman), London
Clark, W. D. (J. A. Edwards), Manchester
Clarke, G. S. (G. A. Cherry), London
Clarke, W. (H. A. F. Brookes), Liverpool
Clayton, K. E. B. (H. W. Bankes), Liverpool
Clayton, P. G. (J. H. Wilkinson), Macclesfield
Clegg, A. P. (A. Morrell), Halifax
Clow, L. R. (P. Errington), Cardiff
\*Clowes, C. R. (F. Hulme), Leek
Cocks, C. S. (T. B. Morris), Cardiff
Cocks, R. C. (B. W. Vincent), London
Collard, R. D. (E. N. C. Hewens), London
Collard, R. D. (E. N. C. Hewens), London
Constantine, C. A. A. (G. N. Roberts), Wolverhampton
Cook, C. J. (S. S. Morton), London
Cooke, J. A. (W. B. Whipp), Manchester
Coombs, M. E. (A. H. Farquar), London
Coombs, M. J. (K. H. Robinson), Port Talbot
\*Cooper, J. E. (D. H. Salmon), Coventry
Cooper, P. R. (L. C. G. Dauncey), Worcester
Cope, C. E. (T. W. Henshaw), Derby
Corfield, E. B. (T. A. Clark), Wrexham
Cory, J. P. F. (K. B. Jefferies), Cardiff
Couldrey, P. P. (G. L. Wiener), London
Crabbe, A. J. T. (C. E. Garratt), Birmingham
Crabtree, J. C. (E. C. Smith), Halifax
Cradock-Henry, C. J. (H. G. Vieler), London
Crook, K. (W. Hare, jun.), Blackburn
Croot, A. J. (J. R. Wise), London
Crook, D. B. S. (E. G. Mathias), Tavistock
Culhane, D. C. (D. H. E. Kahn), London
Cushing, W. A. (A. I. G. White), Newcastle upon Tyne

Dale, P. D. S. (R. F. George), London
Danesh, M. (S. A. Mann), London
Davenhill, R. E. (H. M. Pepper), Birmingham
Davey, A. J. (G. McK. Mowforth), Hull
Davidson, J. E. (Miss), (J. M. J. Davison), Newcastle upon
Tyne
Davies, D. H. (L. Etling), Sheffield
Davies, D. L. (H. Peat), London
Davies, J. R. (H. M. Pritchard), Birmingham
Davies, R. F. (W. C. Cull), Southampton
Davies, V. E. (O. M. Darton), London
Davies, W. J. (F. Hargreaves), Swansea
Davis, W. J. (F. Hargreaves), Swansea
Davis, D. J. (L. O. Resting), Cardiff
Davis, M. R. (F. G. A. Flynn), London
Dawkins, J. B. (J. C. S. Edwards), London
Dawson, D. J. (A. R. Mason), Birmingham
Dawson, J. G. (A. D. Salmon), Wisbech
Day, A. B. C. (M. D. Murray), Walton-on-Thames
Dean, B. H. (P. F. Cansdale), London
Deane, J. E. (C. F. Middleton), London
Dent, B. M. (D. M. Jones), Hull
Desai, N. T. (H. Finck), London
Dharmasena, S. H. (S. J. Cobb), Kingston upon Thames
Dhupelia, C. N. (S. L. Lewis), London
Dickens, M. W. (H. Gordon), Bristol
Diggle, F. G. (A. W. Frankson), Southall
Down, T. J. (J. C. S. Edwards), London
Downs, D. C. (P. Sergeant), Woking
Drake, J. A. (W. L. Dorniny), Cambridge
Drake, M. F. (G. E. Morrish), London
Duckworth, G. K. (F. Booth), Cheadle
Duckworth, S. R. (R. S. Gordon), Manchester
Duffy, A. B. (C. A. Brisley), London
Duncombe, E. R. (W. E. Duncombe), St Albans
Dungay, J. A. (E. L. Pargeter), London
Dupas, R. D. (K. J. Milligan), Birmingham

\*See also Certific

Dyer, C. R. (H. T. C. Reid), London Dyer, M. K. (J. S. Goodare), Birmingham

Eastman, C. E. K. (R. H. Stevens), London Edwards, G. C. (S. F. Chaplin), Wolverhampton Edwards, G. K. (I. A. Wagstaff), Worcester Edwards, M. G. R. (C. W. Puckett), Torquay Ellinson, J. (L. H. Lesser), Southend-on-Sea Elliott, C. J. (H. J. Gittings), Cheltenham Elliott, G. H. J. Weeks), Winchester Ellis, D. S. (D. E. Reynolds), Liverpool Ellis, R. M. (W. E. Quance), Birmingham Ellis-Jones, D. C. (S. J. Clark), Southampton Ellis-Jones, D. C. (L. Littlejohns), London Evans, A. L. (C. Millington), Birmingham Endacott, R. J. (C. J. Holliday), Stroud Etherton, H. L. B. (J. C. Littlejohns), London Evans, P. A. R. (N. D. Ednie), Bedford Everett, D. E. (J. C. Hunter), London
\*Evington, T. (A. Gooch), Hull

\*Evington, T. (A. Gooch), Hull

Fairs, M. R. (E. A. Radford), Woking
Faleye, O. (D. C. Hobson), London
Felton, R. C. (E. H. Orford), London
Fenton, R. W. G. (S. Price), Gloucester
Ferguson, P. (F. E. Wood), Manchester
Field, D. E. (O. Course), Birmingham
Fieldsend, D. G. (J. Birkett), Bristol
Finden-Crofts, A. J. (P. H. Plews), London
Firth, J. (J. S. Brearley), Halifax
Fisher, J. S. (M. Bendig), Bradford
Fison, D. R. (A. L. Poole), London
Fleming, C. R. (B. Pope), London
Fleming, M. J. (W. H. D. Campbell), London
Flesher, P. S. (D. E. Walker), Bradford
Foley, J. (S. J. Clark), Southampton
Foote, M. L. (H. G. P. Lewis), Fareham
Ford, R. J. (C. C. Hayman), London
Formoy, G. R. W. (A. L. Poole), London
Formoy, G. R. W. (B. W. R. Middleton), London
Forster, J. H. K. (G. M. Metcalf), Cardiff
Francis, R. F. (M. Bound), Southampton
Freed, W. M. (I. B. Paul), London
Freeman, J. A. (M. G. Spofforth), Worthing
Frumin, D. H. (D. L. Jones), Newport, Mon
Fryer, D. J. (J. W. Fawdry), Portsmouth
Fuchs, C. J. A. (A. G. A. Rainey), London
Fussell, D. C. (H. H. Gower), London

Fussell, D. C. (H. H. Gower), London

Gaffey, J. S. (R. W. Atkin), Sheffield
Galt, P. J. McF. (H. E. W. Hinde), Darlington
Garfen, M. (G. Sorene), London

\*Garner, M. F. (G. E. Morrish), London
Garside, R. (C. H. Arkley), North Shields
Gee, C. J. (W. C. Peatey), High Wycombe
Ghazvini, H. (M. A. Charlton), London
Gibbins, R. C. (M. R. Nathan), London
Gibbsn, R. J. (D. V. Robertson), London
Gibson, A. J. (D. V. Robertson), London
Gibson, R. J. (B. C. Tarry), Wellingborough
Gibson, W. J. (J. M. P. Watling), Bristol
Gilbert, J. J. (N. H. Barnes), London
Giles, M. A. (W. A. T. Matheson), London
Giles, R. (C. J. Bailey), Sheffield
Glanvill, P. D. (C. A. Solly), London
Glover, A. M. (R. Morris), London
Glover, R. J. H (J. C. MacGregor), Liverpool
Going, P. M. P. (H. I. Ockelford), Nottingham
Goldbart, P. M. (P. Fine), London
Goodall, A. K. (A. A. Mottershead), Macclesfield
Gooddan, C. J. (H. M. Sayers), London
Goodman, D. S. (D. Israel), London
Goodman, C. F. Weston), London
Goring, K. S. (A. R. O. Slater), London
Goring, K. S. (A. R. O. Slater), London
Gorman, K. F. G. (R. J. Howling), London
Graham, D. (A. Scotten), London
Grainger, M. N. H. (H. F. Payne), London
Grainger, M. N. H. (H. F. Payne), London
Grainger, M. N. H. (H. F. Payne), London

Gray, P. H. (L. D. Hayward), Liverpool Greaves, J. W. (H. Keate), Manchester Green, G. (T. G. Burton), Hull Green, P. J. H. (N. McLaren), London Green, R. M. G. (A. H. Marshall), London Green, R. M. G. (A. H. Marshall), London Greenwood, J. D. (A. H. Hamer), Hebden Bridge Greenwood, M. N. W. (F. R. Strover), London Gregory, C. R. (A. Hanson), Manchester Griffin, B. J. (W. G. J. Sales), London Griffin, S. J. D. (D. Webster), London Griffith, M. (K. G. Lyon), Liverpool Griffiths, D. G. (B. C. Sage), Rhyl Griffiths, D. G. (B. C. Sage), Rhyl Griffiths, M. D. (A. F. Palmer), London Groves, D. (J. A. Wise), Bristol Gulati, B. R. (C. Cantor), London Gunn, J. R. (W. H. Mason), London Gunn, J. R. (W. H. Mason), London Gupta, D. (G. M. Collier), Enfield Gupwell, C. J. (F. I. Edwards), Birmingham

Gunn, J. K. (W. H. Mason), London
Gupta, D. (G. M. Collier), Enfield
Gupwell, C. J. (F. I. Edwards), Birmingham
Haines, L. C. (J. B. Humphreys), Manchester
Hair, R. E. (T. R. D. O'Neill), Brigg
Haldane, G., London
Hall, G. M. (J. R. H. Godkin), Loughborough
Halliday, P. A. H. (P. Robinson), London
Hammer, A. M. G. (J. R. Briggs), London
Hammond, M. (F. C. Holliday), Leeds
Hammond, M. J. (A. E. Warner), Colchester
Hammond, R. E. (W. A. T. Matheson), London
Hancorn, D. J. (H. L. L. Bunker), Bristol
Hardman, G. A. G. (H. S. Stafford), Manchester
Harper, S. E. (H. Wadie), London
Harris, D. (F. H. Bennett), Birmingham
Harris, J. F. P. (H. Yates), Preston
Harrison, D. A. L. (E. Slater), London
Harrison, D. A. L. (E. Slater), London
Hart, G. C. (W. A. Croft), London
Hart, G. C. (W. A. Croft), London
Hartley, G. B. (J. F. Lewis), Sheffield
Hartman, R. W. (E. F. G. Whinney), London
Hartnall, M. J. (J. R. Ward), Godalming
Harvey, D. H. (C. B. Lea), London
Hasler, M. F. (E. J. Woodhams), London
Hawkins, A. C. S. (A. H. B. Wood), London
Hawkins, J. S. (S. M. Lever), London
Hayey, C. A. (R. L. Emmitt), Sheffield
Hawthorn, A. J. (H. Gould), London
Hayes, M. C. (B. F. Jukes), Hastings
Haylock, P. A. (J. N. Prentice), London
Haythorpe, M. R. (A. J. Lovatt), Peterborough
Heath, P. J. (P. J. Butterworth), Bridgwater
Henderson, J. C. (Miss), (H. J. Johnson), Derby
Hendry, G. A. F. (D. H. Collier), London
Herbert, M. (M. I. Makin), London
Hervy, M. (S. K. Tubbs), London
Hervy, M. (S. K. Tubbs), London
Hervy, M. (S. K. Tubbs), London
Hervy, M. (B. R. Hogg), London
Hervy, M. (B. R. Hogg), London
Hervy, M. (R. S. L. C. Whitehead), Leicester
Hicks, B. I. (Miss), (S. Gothard), Birtingham
Hindle, D. C. (H. B. Cookson), Birmingham
Hindle, D. C. (H. B. Cookson), Birmingham
Hindle, D. C. (R. P. Thornhill), Bristol
Hodden, K. (S. A. Gates), London
Holden, K. (S. A. Gates), London
Holden, R. J. (R. V. J. More), Manchester
Holdsworth

Hood, W. R. (N. E. Dunning), Stoke-on-Trent Hooker, C. J. (M. Makin), London Horobin, J. E. (J. B. Dixon), Middlesbrough Horwood, M. C. (J. M. Dinwoodie), Newbury Howard, R. I. A. (H. F. Dixon), London Howe, D. G. (J. R. Adcock), Birmingham Howe, J. (H. P. Jones), Liverpool Hudson, P. M. (B. O. Manning), London Hughes, C. F. (J. E. Evans), Chester Hughes, J. D. P. (R. F. George), London Humphrey, T. (E. L. Becker), Burnley Hunt, D. C. (T. C. Walker), St Helier Husain, A. (J. B. Humphreys), Manchester Husain, H. (R. A. Flamank), Birmingham Hutton, R. T. (H. L. Jones), Cardiff Hyde, A. J. D. (J. A. Evans), Birmingham

Illingworth, J. H. (R. F. Gould), Derby Imber, G. R. (D. Hodkin), London Ingate, B. R. (E. T. Lewis), London Ingle, G. (A. R. Walton), Leeds Ingram, B. G. (B. J. Ketchlee), London Iqbal, S. (M. Fenton), London Islam, M. (B. Rose), London Ivey, J. C. (A. L. Poole,) London

Isaan, M. (B. Rose, London
Ivey, J. C. (A. L. Poole,) London
Jaafar, A. B. M. (Miss), (G. M. Maurice), London
Jackson, B. (Miss), (H. Tranter), Oakengates
Jackson, G. E. (R. S. Waldron), London
Jackson, J. G. (D. J. Kean), London
Jackson, T. W. (G. D. Shepherd), Carlisle
Jackson, T. W. (G. D. Shepherd), Carlisle
Jackson, W. McL. (J. G. Burnside), Belfast
Jaffer, F. D. M. B. (F. Collis), London
Jakes, C. D. (H. E. Hassell), London
James, J. T. (H. Lord), Cardigan
James, M. (D. Spencer), West Bromwich
Jarvis, R. L. (J. M. Payne), London
Javasekera, A. R. (W. N. Dawson), Middlesbrough
Jeffery, J. C. (A. Shaw), Bristol
Jenkins, C. F. (R. A. Folland), Birmingham
Jenkins, J. (C. E. Hampton), Blackheath, Staffs
Jennings, M. F. (D. N. Carter), Kingston upon Thames
Jervis, R. D. (D. T. Dutton), Northampton
Jetha, A. G. (F. W. Lindgren), London
Johnson, E. A. (F. T. Cain), London
Johnson, A. B. (F. J. Frodsham), Liverpool
Johnston, P. I. (L. C. Winterton), London
Jones, A. J. (E. J. R. May), London
Jones, G. B. (W. Ledger), Kingston upon Thames
Jones, G. T. (F. H. Walsh), Burnley
Jones, G. T. (F. H. Walsh), Burnley
Jones, R. A. (G. W. Coleman), London
Jones, R. F. B. (A. K. Sheppard), Norwich
Jones, T. P. (J. Bromley), Southampton
Jones, T. P. (J. Bromley), Southampton
Jones, W. D. (P. A. Hayes), Cardiff
Jordan, D. J. (G. C. B. Gidley-Kitchin), London
Judd, D. J. (G. H. Taylor), Enfield

Kalu, A. A. (G. Classick), Manchester
Kamdar, J. M. (G. Holroyd), London
Kana'an, I. N. (T. S. Mullarkey), London
Keevil, D. J. (P. C. Molineux), London
Kelk, R. (A. P. Burton), Keighley
Kelly, A. N. (R. E. Bolton), Newcastle upon Tyne
Kelly, W. F. (R. H. Hughes), Wolverhampton
Kendall, S. C. E. (J. Green), London
Kennedy, F. K. (E. D. Cox(, Birmingham
Kennedy, J. M. (C. B. Sebire), London
Kent, N. B. (J. Norris), Darlington
Kent, R. A. (R. Gibb), Swansea
Kernick, S. M. (E. Chaloner), Manchester
Khan, G. S. M. (H. A. Rees), Slough
Khan, I. H. (E. M. Beecham), London
Khann, I.-U.-H. (H. O. Raphael), London
Khanna, P. C. (P. G. Wenham), London
Khanna, P. C. (P. G. Wenham), London
Khoury, M. G. M. (E. C. Griffith), Watford
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Wild, J. A. (H. E. Coulthurst), Manchester
Wild, J. L. R. (F. S. Wills), Lewes
Wilde, G. R. (P. C. Cardno), Bradford
Wilkes, B. L. (I. C. Heath), London
Wilkie, A. D. (J. Wilkie), Newcastle upon Tyne
Wilkie, G. (E. Swinburne), Sunderland
Wilkinson, D. T. (R. A. Douglas), Manchester
Wilkinson, P. (A. R. Mason), Birmingham
Willey, A. E. (A. Wagstaff), Mansfield
Williams, B. J. (K. H. Payne), Chester
Williams, C. V. (R. F. Sumner), London
Williams, H. M. (K. Wilson), London
Williams, H. M. (K. Wilson), London
Williams, P. G. O. (G. W. Coleman), London
Williams, P. J. (A. C. Brading), Exeter
Wilson, J. (A. Holmes), Manchester

Winton, P. F. (C. E. Davison), Leicester
Withinshaw, P. J. (W. S. C. Charles), Carlisle
Wood, B. J. (N. F. C. Willey), London
Wood, D. R. W. (H. D. Waller), Newcastle upon Tyne
Wood, M. J. (C. F. Horton), Maidstone
Woodhall, G. K. (C. Thornton), Preston
Woodman, M. J. (H. J. Barrett), Portsmouth
Woods, J. F. (K. C. Moore), Bath
Woods, J. R. (R. Harris), Hull
Woolley, J. G. (G. T. Bridge), Manchester
Worth, J. T. (M. J. Calder), London
Wright, M. G. (R. W. N. Barrett), London
Wright, S. W. (A. C. Vause), London
Wrightson, D. W. (R. G. Jennings), Sunderland
Wyatt, J. A. (J. H. Fellows), London
Yadoo, G. (A. S. Hitchings), London Yadoo, G. (A. S. Hitchings), London Yates, A. J. (J. C. Lees), Birmingham Yates, J. (F. Avison), Oldham Yetman, J. A. (A. Hodkinson), Preston Yorke, J. S. (J. P. Grenside), London Young, J. C. K. (R. S. Ransom), London Young, R. M. L. (M. F. Pope), Canterbury Yule, A. F. (E. D. Jehring), London Zampelas, M. H. (C. B. Edwards), London Zia-ul-Hasan, (R. S. Wilkinson), Stoke-on-Trent

1015 Candidates passed

1047 Candidates failed

#### PRELIMINARY EXAMINATION

Held on May 15th, 16th, 17th and 18th, 1962 First in Order of Merit and the Institute Prize Whatsley, Anthony Ronald, Thorpe-le-Soken

#### Full List of Names of Successful Candidates (In alphabetical order)

Ashton, R. B. W., Matlock Austin, P. R., Guildford

Barlow, C. W., Blackpool Bassindale, G. J., Ashford, Kent Beecham, H. C., Spalding Bolton, J. H., Liverpool Brennan, P. J., Manchester Brooking, N. G., Bristol

Christofides, G. A., London Clatworthy, B. J., Birmingham

Dauncey, J. A., Maidenhead

Fox, N. J., Ruislip

Georgiou, K., London Goddin, T. P. J., Kenilworth Greenhalgh, M. E., Bolton

Hale, R., Brierley Hill Harrison, J. D., Middlesbrough Hobbs, I. D., Harrow

Hughes, R. J. W., Wolverhampton Hughes, S. W., Birchington

Jenkins, R., Stevenage

Kershaw, J. F., Manchester

La Coste, E. B., London Lamb, D. H., Cleator Moor

Macaulay, H. T., Chigwell Marshall, R. F., Leigh Mason, P. W. H., Stansted Miles, C. J., Bristol Moger, N. J. D., London

Nodding, J., Birmingham

Onana, M. M., Wednesbury

Pattinson, I., Rugby Puttock, D. F., Crowborough

Quarmby, C., London

Renshaw, M. B., Wellington Riseman, D. W., Westcliff-on-Sea Rosenthal, G., Manchester

Sajan, M. K., Bromley
Sandiford, J., Rochdale
Schacht, A., London
Simcox, P. W., Ashton-under-Lyne
Slack, S., London
Soar, J. C., Sheffield
Stein, S. D., London
Stirk, J. M. (Miss), Bradford

Teggin, H. W., Stoke-on-Trent

Wailing, M. D., Wolverhampton Walker, W. M., Ruddington Webb, M. F., Harrow Whatsley, A. R., Thorpe-le-Soken Woodlock, D. A., Birmingham Wright, G. R. C., Wakefield Wynne, J. D., London Wynne, M. A., Sale

153 Candidates failed

#### 54 Candidates passed

#### Summary of Results

Candidates Successful Candidates Failed	••	 		Final 814 806	Intermediate 1,015 1,047	Preliminary 54 153	Total 1,883 2,006
Candidates Sat	••	 • •	• •	1,620	2,062	207	3,889

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# THE ACCOUNTANT

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# Banks in the Headlines

VEN in a generation as familiar with take-overs as ours, movement amongst the monolithic giants that dominate the banking structure is news. All of us whose custom feeds these giants have a legitimate interest in their activities and the eighty-seven-word announcement last week that the National Provincial Bank may make an offer for the share capital of the District Bank sparked off something like that number of thousands of words of commentary in the Press.

Bank amalgamations have a longer history than most. A century and a half ago the banking needs of England and Wales were still served only by the Bank of England and a host of small private banks; the joint-stock banks, with branch networks, which had been legal in Scotland since the beginning of 'modern' banking, were outlawed south of the Border by the Bank of England's socalled monopoly. When they were at last permitted, in 1826 outside London and in 1833 in London too (incidentally, the District Bank was founded in 1829 and the National Provincial in 1833), they developed apace and throughout the rest of the century they grew in importance at the expense of the private banks, absorbing both one another and their private competitors.

This amalgamation movement reached its culmination in the very large amalgamations that produced the 'Big Five' at the end of the First World War. It was then that today's banking pattern was virtually set, with Midland as the biggest of the banks by balance sheet assets, a position lost to Barclays only a few years ago. Short of amalgamation, the relative strengths of the big banks - largely dependent for their business on their spread of branches is very hard to change even over a very long period.

The last spate of amalgamations produced some public concern lest a money monopoly should be created, and although in the event there was no prohibitive legislation, Parliament was assured that no further amalgamations would take place without the approval of the Treasury and the Board of Trade - approval which, it is assumed, has been obtained for the merger now proposed.

The accompanying table shows how very mixed a group the clearing banks are. They are the eleven banks that today operate the Clearing House, through the mechanism of which cheques drawn in Britain (including cheques on banks other than the clearing banks) are 'cleared' – i.e. passed through to the branches on which they are drawn. They have all, as it were, inherited their clearing house status; the list today is the product of history, or evolution, rather than of conscious planning. Three of the 'Big Five' have either Scottish subsidiaries or at least a Scottish interest.

but two of the clearing banks are themselves owned by a Scottish bank. Two of the 'Big Five' have Irish subsidiaries; but, by an odd quirk of history, one of the 'clearers' is for the most part an Irish bank with its head office in London. The 'clearers' include the biggest and some of the smallest banks in the country; the overseas banks with head offices in London, for example, which have never needed direct clearing facilities would by size come easily into the clearing table, one of them, Barclays Bank D.C.O., being in fact the sixth biggest British bank.

Many commentators have seen the reasoning behind the N.P.-District merger proposal as being the possibilities of rationalization and a better nation-wide branch distribution, the District's strength being in the north-west, where the N.P. is weaker. It seems doubtful, however, whether anything like the full benefits of rationalization can be obtained without a complete merger; whereas if the present proposal goes forward as planned, the District will remain a

Total

No. of

separate entity with its head office continuing in Manchester. The number of clearing banks will thus remain eleven; such public importance as the merger has lies rather in the fact that the number of independent clearing banks will drop from eight to seven.

Speculation has been plentiful this past week as to whether Martins will be the subject of the next bid. No one seems to have suggested that one or other of the 'Big Five', or indeed Martins itself, might want to follow Midland and Westminster into Ireland, by linking with the National.

Other questions have been asked. Does an amalgamation of the kind now proposed, looked at from the point of view of the shareholder, further undermine the majority view of the Jenkins Committee that the banks still need not disclose their real strength? Is the new amalgamation a first step towards further rationalization of a banking system that puts five branch banks in so many market-places? If so, to what figure can 'five' be reduced without losing the undoubted

#### THE CLEARING BANKS

	Assets December 31st, 1961	Branches December 31st, 1961	•	Principal associations within British Isles
Barclays	£ million 1,959	2,297	1919 1919 1958	Union Bank of Manchester Ltd acquired. Absorbed 1940. British Linen Bank acquired. 25 per cent interest in United Dominions Trust.
Midland	1,834	2,330	1917 1920 1924 1958	Belfast Banking Co acquired. Clydesdale Bank Ltd acquired. North of Scotland Bank Ltd acquired. (with Clydesdale and North of Scotland) Forward Trust Ltd.
Lloyds	1,569	1,839	1958	Association with National Commercial Bank of Scotland 50 per cent interest in Lloyds and Scottish Finance Ltd. Also associated with Bowmaker Ltd.
Westminster	1,142	1,258	1917 - 1958 .	Ulster Bank Ltd acquired. (with Martins) Mercantile Credit Co Ltd (20 per cent each).
National Provincial	1,032	1,566	1920 <u>.</u> 1958 1961	Coutts & Co acquired. North Central Wagon & Finance Ltd acquired. Isle of Man Bank acquired.
Martins (Liverpool)	415	656	1951 1958 1958	British Mutual Bank Ltd absorbed. Lewis's Bank acquired. (with Westminster) Mercantile Credit Co Ltd (20 per cent each).
District (Manchester)	314	560	1935 1958	County Bank Ltd absorbed. 33\frac{1}{2} per cent interest in Astley Industrial Trust.
Williams Deacons (Manchester)	158	240	1930 1958	Acquired by Royal Bank of Scotland. (with Royal Bank of Scotland and Glyn's) British Wagon Co Ltd acquired.
National	119	26 i (30 in U.K.)	1958	45 per cent in Bowmaker (Ireland) Ltd.
Glyn Mills	77	3	1939	Acquired by Royal Bank of Scotland.
Coutts	58	7	1920	Acquired by National Provincial.

benefits of inter-branch competition for business? - a competition which has always been very real, within the limits imposed on the one hand by successive Chancellors and on the other by the banks themselves, in their interest agreement.

As the banking habit spreads, the banking system is bound to be radically changed. Computers are a part of the new banking; altered hours of business are being actively canvassed. Last week serves as a reminder that other kinds of change may come too.

# Exposé on the Common Market

THE trade unions have not been alone in harbouring niggling doubts and reserva-- tions about certain detailed aspects of Britain's application to join the Common Market. Accordingly, there is more than immediate interest in the closely reasoned ten-page statement in which Mr Edward Heath, the Lord Privy SEAL, has replied to a memorandum sent to him by the Trades Union Congress.

In spite of their critical observations, Mr HEATH must have derived some comfort from the opening statement in the T.U.C. memorandum, which said that they had consistently supported the principle of closer economic association in Europe. In his reply Mr HEATH seeks to allay trade union doubts on the question of planned expansion by quoting the explicit aims of the original signatories in the Article 2 of the Treaty of Rome:

'It shall be the task of the Community . . . to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its member States,

and he goes on to show that these aims are by no means inconsistent with the use of price control, neither do they clash with the use of State aids to industry rendered necessary by economic difficulties.

As to employment policy, Mr Heath stresses the fact that if the United Kingdom becomes a member of the Community, the Government 'would naturally use their influence, if necessary, to ensure that the policies of the Community paid proper regard to the need to maintain a high and stable level of employment'. Nevertheless, the maintenance of a high level of employment at an acceptable standard of living is essentially dependent on the realization of other aims mentioned in Article 104 of the Treaty (especially

the equilibrium of a member State's overall balance of payments together with the stability of price levels).

Turning to the thorny problems posed by the mobility of labour, and replying to the T.U.C.'s proposal that the Treaty's provisions for complete mobility of labour should be modified to bring them into line with British practice, Mr HEATH reminds us that the member States of the Community attach importance to the provisions of the Treaty dealing with the free movement of labour because they make it easier for workers who wish to do so to 'move freely within the territory of member States' for the purpose of 'accepting offers of employment actually made' and because they enable labour supply and demand to be brought into better relation within the Community. Thus, even with full employment, says Mr Heath, it still could not be argued that these Articles were 'unnecessary or irrelevant'.

Dealing next with a T.U.C. complaint that the social security provisions of the Treaty lack precision and that there should be a clear understanding that United Kingdom standards would not be lowered, Mr HEATH states that while the Common Market undoubtedly would favour harmonization of social systems, Articles 117 and 118 place no obligation on the Government to harmonize our system of social security with those of other members. In any event, the Government would keep a close watch on the real value of the various social benefits so as to guard against any fall in the standard of living of those dependent upon such benefits.

As the first substantial statement to come from Government circles on some of the conflicting issues involved, Mr Heath's exposé may be welcomed as much for its evidence that the Government seems at last to have recognized the need for such explanatory memoranda, as for its specific replies to the T.U.C.'s objections.

# Short-term Gains - VII

#### GIFTS AND CHARITIES

E have seen that where there is an acquisition (i) by way of gift or (ii) in some other way not being a bargain at arm's length, then for Case VII purposes the consideration is to be assumed to be the market value of the asset at the time of the transaction. This provision in section 12 (3) of the Finance Act, 1962, is subject to the provisions of the Ninth Schedule (ibid. and section 16 (8)) which contain several rules dealing with transactions of this kind. They distinguish between (i) and (ii) but give little guidance as to the precise whereabouts of the dividing line. Section 12 (3) (a) and paragraph 5 assume that a distribution by a company in respect of shares cannot be a gift. Section 16 (1) provides expressly that a donatio mortis causa is not a gift for Case VII purposes; it is a legacy. There must, it seems, be an animus donandi, but that is often present in such things as bargains between members of the same family. Guidance is obtainable from estate duty case law.

Dealing here with gifts pure and simple, paragraph 3 (1) of the Ninth Schedule sets out two sets of circumstances where, in relation to the interest taken by the donee, the donor's acquisition of the asset must be treated as if it had been an acquisition by the donee himself. It will be recalled that this statutory hypothesis imports the consequences described in paragraph 18 (1), namely, that the donee is treated as if

- (i) he acquired the asset on the same date as the donor acquired it; and
- (ii) for a consideration of such an amount that a disposal by the donor to the donee at that price would have produced neither profit nor loss on a Case VII computation, i.e. the provision in section 12 (3) as to market price does not apply.

We come now to the categories to which paragraph 3 (1) applies. In both of them the donor must be a person both resident and ordinarily resident in the United Kingdom at the date of the gift. The categories are:

 (a) where the donor had previously acquired the asset but there is no acquisition and disposal for Case VII purposes; or (b) where the asset is acquired by the donor as legatee.

As regards (a), section 10 (2) provides that there shall be no acquisition and disposal for Case VII purposes where the statutory time limit of six months (or three years) is exceeded. Of course, if the donor had acquired the asset prior to April 10th, 1962, then by virtue of (i) above the donee would be immune from Case VII. The significance of (b) lies in section 12 (8) and the second proviso to paragraph 18 (1). This proviso says in effect that if the donor acquired the asset as a legatee, then the donee is to be treated in the same way. Section 12 (8) provides that a person acquiring assets as legatee shall not be chargeable under Case VII in respect of any acquisition and disposal by reference to that acquisition, except as provided by section 14 which deals with shares in land-owning companies.

#### Example

A. inherits on June 1st, 1962, shares worth £1,000. He gives them to B. on July 1st, 1962, when they are worth £1,200 in the open market. B. sells them on August 1st, for £1,500. Assume no expenses.

As legatee, A. would be exempt from Case VII (section 12 (8)). Under the ordinary section 12 (3) rule, B. would have made an assessable profit of £300. However, under paragraphs 3 (1) and 18 (1) he is deemed to have acquired the shares as legatee and therefore is not chargeable. Moreover he is deemed to acquire them for no consideration. Apparently A.'s exemption is preserved and he is not deemed to incur any loss by the gift.

Gifts not within either of the paragraph 3 (1) categories will normally receive section 12 (3) treatment. However, if both donor and donee are resident and ordinarily resident in the United Kingdom at the date of the gift, paragraph 3 (2) provides for an election. If the election is made, then

(a) the donor is not chargeable to Case VII tax in respect of an acquisition and disposal by reference to the gift; and

(b) the donee is treated as if the donor's acquisition had been the donee's acquisition.

However, this does not bring in the full operation of paragraph 18 (1). Paragraph 3 (2) (b) goes on to say that the amount of the consideration for which the donee is treated as acquiring the asset is not to be increased by reason of paragraph 3 (2).

#### Example

A. buys shares for £3,000 on May 1st, 1962: expenses of acquisition £70. He gives them to B. on July 1st, 1962, when the market value is £900. B. pays the transfer costs £30. B. sells the shares without expense, on October 1st, 1962, for £3,500.

Clearly paragraph 3 (1) does not apply. Ignoring paragraph 3 (2), the computations are as follows:

Cost Expenses		•••	••	£ 3,000 70
			Total	3,070
Deduct market	value		••	900
Case VII loss	••	••		£2,170
B. Proceeds of sale				3,500
Market value or	n acqu	isiti		
Expenses			£900 	930
Case VII Profit				£2,570

Assuming an election under paragraph 3 (2), the computations are as follows:

A. Not chargeable (paragraph 3 (2) (a)) and therefore no loss (section 10 (4)).

B. As the notional cost of acquisition under paragraph 18 (1) would exceed the £900 market value, the cost of acquisition stays at £900 and the Case VII profit is as before (paragraph 3 (2) (b)). If B. had not sold until November 2nd, 1962, then an election would have negatived his liability, owing to the six months' time limit.

The election under paragraph 3 (2) must in general be exercised by both donor and donee jointly. However, the donee may exercise it alone if, apart from paragraph 3 (2), the donor would

not be chargeable under Case VII in respect of any gain from the acquisition and disposal, e.g. where his own acquisition was before April 10th, 1962 (paragraph 3 (3)). There is no right to an election at all if

(i) the gift is a gift of shares; and

(ii) the donor is, but the donee is not, within section 14 of the Act (dealing with shares in land-owning companies (paragraph 3 (4)).

The procedure and requirements of a valid election are set out in paragraph 19 and will be dealt with later; ample time for election is given.

If the gift is to

(a) a charity; or

(b) an association within section 449 of the Income Tax Act, 1952,

for the purposes of the donee, then the donor is not chargeable under Case VII (paragraph 3 (5)). 'Charity' means a body of persons or trust established for charitable purposes only (section 15 (1)). To be within section 449, the association must be, broadly speaking, an approved research association which cannot distribute profits among the members.

This is perhaps a convenient place to mention section 15 (1) of the Act which exempts from Case VII any gain accruing to a charity or to any of the associations mentioned. A superannuation fund approved under section 379 of the Income Tax Act, 1952, enjoys a similar exemption under section 15 (2). However, where only part of the fund is approved, the gain is to be exempt only to the same extent as income derived from the assets in question would be exempt. There are three other enactments providing for exemption from tax of superannuation and similar funds, other than those approved under section 379. They are:

- (a) Income Tax Act, 1952, sections 381, 382, 385;
- (b) Finance Act, 1956, sections 22 (5) and 40 (3);

(c) Finance Act, 1961, section 21.

Section 15 (3) of the 1962 Act exempts from Case VII tax the gains accruing from the acquisition and disposal of assets as part of the fund. The United Kingdom Atomic Energy Authority enjoys a subsection to itself. Exemption extends to its own acquisitions and disposals, and to the acquisitions and disposals of any pension fund provided and maintained by the Authority.

# Dividing the Balance Sheet — the Treatment of Future Taxation

by R. S. WALDRON, F.C.A.

T is noticeable that although the use of vertical profit and loss accounts is becoming so common as to be regarded as the normal form, especially since its endorsement by Recommendation No. 18<sup>1</sup> of The Institute of Chartered Accountants in England and Wales, the vertical balance sheet has not been so readily accepted. One reason may be the question of space. A 'conventional' two-sided balance sheet fills a double-page spread satisfactorily, while a vertical one needs either a larger page — unless it is 'continued' on to the next page, which largely defeats the object of the exercise — or has to be either cramped or condensed.

Undue condensing of the balance sheet does not make for understanding, and while simplicity is admirable in all statements to shareholders, one made up of a list of items none of which is explained adequately, may be 'simple' in one sense but is completely incapable of being understood by the layman; and surely comprehension by the layman is an essential ingredient of 'simplicity' in published accounts.

Both companies which were successful in obtaining *The Accountant* Annual Awards this year, namely, Rolls-Royce Ltd and Atkinsons Lorries (Holdings) Ltd, adopted vertical balance sheets. Several years ago the United Steel Companies Ltd had a similar style; in two of these cases the balance sheet was condensed into a 'main headings' statement, the explanatory detail being shown alongside on the facing page. Brightside Engineering Holdings Ltd has used a condensed form in 1962, and there are doubtless other examples known to readers.

Putting a double-sided balance sheet into vertical form is but a short step to take if the current liabilities are already deducted from the current assets, as often happens already. Of particular difficulty, however, as has been observed by other writers, is the position to be given to 'Future taxation'. Many companies show it as a deduction from net assets. Others include it with reserves.

### <sup>1</sup> 'Presentation of Balance Sheet and Profit and Loss Account', The Accountant, November 15th, 1958.

#### **Future Taxation**

The English Institute's Recommendation No. 19<sup>2</sup> states clearly that future taxation is a reserve. On the other hand, the same Recommendation includes the view that in prospectus statements the amount (if any) set aside for future taxation should be disclosed, which has led to many such statements showing the amount in the most convenient way, i.e. as a deduction from the net assets. (In many such cases the 'capital employed' statement is not produced.)

One way of endeavouring to find a solution is to consider the descriptive phrases included in such statements. Apart from the descriptions already well known to readers, such as 'capital and reserves', 'net assets', 'shareholders' funds', etc., a number of companies employ the phrases 'capital employed' and 'employment of capital'.

If thought is given to the meaning underlying these terms, it would seem obvious that the amount 'set aside' in the books to cover estimated future taxation must be part of the section described as 'capital employed' simply because it is unlikely to be treated as a sort of 'trust fund' represented by its own investments, unless it is immediately and fully represented by tax reserve certificates. On the other hand, many no doubt feel that because some future tax, probably approximating to the amount set aside, will become payable in due course, it is more prudent to set it off on paper by deducting it from net assets.

In their report the Jenkins Committee state (paragraph 307):

'sums set aside to meet future tax liability or for tax equalization should be shown in the balance sheet as separate items distinct from either reserves or provisions; if no such amounts or inadequate amounts are set aside for either of these purposes an explanation should be given'.

It would seem, therefore, that the Committee inclined to the view that future taxation is a unique item; so that its position on the balance sheet should depend on the facts of each case.

<sup>&</sup>lt;sup>2</sup> 'Treatment of Income Tax in Accounts of Companies', *The Accountant*, November 22nd, 1958.

#### THE ACCOUNTANT

#### Capital Employed

The real question to be answered, therefore, is whether the value of the future taxation is represented in the assets or not. In the absence of a deficiency, it must be so represented, but is this the end of it? If future tax is exactly represented by tax reserve certificates, or by a fund otherwise specifically invested, is it not clearer to show this by linking the two items in some way?

Some readers may have seen the most recent balance sheet of Loraine Gold Mines Ltd. In this case the balance sheet has been divided between fixed assets and net current assets, the fixed assets being balanced against an equal total comprised of share capital, capital reserves, fixed loans and other obviously related sums of a fixed nature, plus a balance representing sums advanced to meet expenditure on fixed assets out of current assets not specifically ear-marked by the creation of appropriated reserves for the purpose. Other companies adopting a similar practice often make specific appropriations in order to avoid showing this balance.

It is no doubt incorrect, on a strict view of a company balance sheet, to describe as 'revenue reserves' those reserves which have been invested in fixed assets, since - at any rate until the assets are fully depreciated out of revenue or realized in cash - they cannot be said to be 'available for distribution' so as to satisfy the test implied by the Companies Act definition of capital reserves. It would, therefore, appear correct for companies to see that the total of issued share capital plus capital reserves (including share premium account) is sufficient to cover the total value attributed in the accounts (or consolidated accounts), at each accounting date, to the fixed assets.

#### Some Effects of Dividing Balance Sheets

If a balance sheet is to be divided 'horizontally', however, is the distinction between 'fixed' and 'current' items the only significant one? Another possible way to divide a balance sheet, with the object of achieving a true assessment of the worth of the business, is to separate those assets which are employed inside the business from those which are invested outside. This step is possibly more logical than appears at first sight, because such a division would normally be made as a matter of course in a profit and loss account - external revenue being shown separately from trading revenue and described as 'sundry revenue', 'miscellaneous income', etc.

If such a division were adopted, then the item of future taxation' about which there is still some doubt as to its proper nature and position in the accounts, would become an easier problem altogether. If it is represented by assets currently employed in the business, then it must surely be a reserve and be classified as such. On the other hand, if it is specifically represented by an outside investment (e.g. tax reserve certificates), it may be set off against that investment in its own section of the balance sheet, as the following illustration shows:

EMPL	OTMENI	OF	CAPITAL
 within	hasinasa		

Employed within business CURRENT ASSETS (Detail)		
Less CURRENT LIABILITIES (Detail)		,
FIXED ASSETS	* .*	,
Employed outside business INVESTMENTS (Detail)	,	
CAPITAL EMPLOY	(FD	-
Share Capital (Detail) Capital Reserves (Detail)		
Revenue Reserves (Detail)		
Future Taxation Less Specific Investment in Tax Reserve Certificates		

It is interesting to see from the above illustration that several quite significant totals emerge from such a statement. Firstly, there is the total invested within the business (and here it would be obviously desirable that original capital and retained earnings be shown separately from any 'book' addition arising from revaluations – except. of trading assets). This total is directly comparable with earnings from trading activities. Secondly, there is the total of capital employed outside the business, which can be compared with its relative earnings. Thirdly, the balance of what is 'set aside' for future taxation which has to be financed in due course from assets within the business, is shown as a part of the total (net) capital employed. - as indeed it is. If to these facts is added the due date of payment of the future taxation liability (i.e. excluding the tax equalization element), then it is submitted that the balance sheet bears quite an interesting 'new look'.

# Network Flow Analysis - II

by A. BATTERSBY, B.Sc., F.R.I.C., F.S.S.

In this second article, the author continues his example of how this new technique – an aid to planning derived from the Theory of Graphs – may be useful to accountants.

Individual jobs which go into publishing a book can be built up into a network which represents the undertaking as a whole. By using this network, the set of normal durations given last week in Table I, a little common sense and trial-and-error, we find that *Uncle Reggie's Revels* cannot be published in less than thirty-eight weeks. Since the permissible upper limit was stipulated as thirty-four weeks, the whole production must be speeded up.

The obvious way to do this is to shorten the duration of some of the activities, even though the direct costs will be increased. The question is, which jobs shall be speeded up, and by how much? In order to investigate this, let us first suppose that we adopt all the 'rapid' durations listed in Table I, thereby putting up the direct costs from £1,130 to £1,725.

Figure 2 herewith, shows the resulting arrangement; this time the arrows have vertical lengths proportional to the durations of the activities, the horizontal lines being merely links which do not affect the time scale. In order to complete the network, we shall have to insert some more dotted arrows along certain branches: these represent periods of idleness and are technically known as 'floats' or 'slack times'; the durations of the several floats are marked in Figure 2.

#### The Critical Path

There is always at least one path with no float; in Figure 2 it is 1-2-4-22-23-24-25-26-28-29 and is shown by a heavy line. It is the sum of the durations along this path which determines the overall duration of the project; it is therefore called the 'critical path'.

Figure 2 also contains the 'ranges' and 'rates' for those fourteen activities which have a rapid as well as a normal duration. The range is simply the difference between the two durations and the rate is the cost, per week, of speeding up the job. As an example, consider activity 1-2 'Negotiate contract'. We have assumed that negotiating with the author, illustrator and designer usually takes four weeks: it is accepted as part of the publisher's

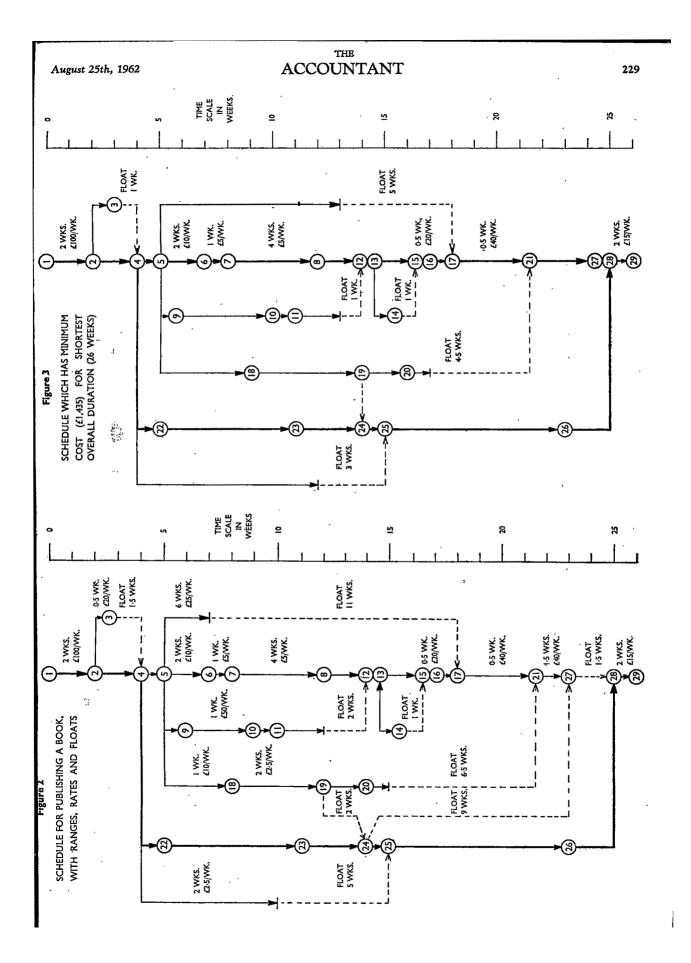
routine and therefore incurs no direct costs. If done in a hurry, it could be completed in two weeks but would then carry a risk of unfavourable terms for the publisher, estimated as costing £200. The range of this activity is two weeks and the rate £100 per week.

It is evident from Figure 2 that some of the activities have been unnecessarily speeded up; 5-17 and 2-3 are obvious ones which can be restored to their normal duration without affecting the overall duration. It is equally obvious that this cannot apply to any activity on the critical path, so let us begin by selecting the noncritical activity with the greatest rate. It is 9-10 'Compose type' which can be increased by one week; this cuts  $f_{.50}$  off the cost to make it  $f_{.1}$ ,675. The float between 11 and 12 is adequate and no other paths are affected, so we go back to the normal duration for this activity. The next highest non-critical rate is now 21-27 'Bind', which can be increased in duration by 1.5 weeks, reducing the total cost by £60 to £1,615.

This absorbs all the float between 27 and 28 and so a second critical path is created: it is 1-2-4-5-6-7-8-12-13-15-16-17-21-27-28-29. However, there are still other non-critical activities which can be restored to normal duration, and for the sake of brevity they are summarized below:

Non-critical			New total
activity	Range	Rate	cost
		· <del>-</del>	£1,615
5-17	6 wks.	£25 /wk.	£1,465
2- 3	0·5 wk.	£20 /wk.	£1,455
5–18	ı wk.	£10 /wk.	£1,445
4-25	2 wks.	£2.5/wk.	£,1,440
18–19	2 wks.	£2·5/wk.	£1,435

This is a fairly straightforward case. In more intricate networks, the effects of inadequate floats and parallel paths can cause difficulties. (For example, the manipulations become much more subtle if 23-24 'Print jacket' can be done rapidly in 2.5 weeks for £50.) The complications need not concern us – this part of the calculation can be set up in linear programming form and solved by one of the usual standard routines.



#### Avoiding 'Panic' Programmes

Some of the advantages of network flow analysis are now coming to light. It has shown that an undertaking may be speeded up by hastening only certain selected activities and provides a criterion for picking them out. The £1,725 which would have been spent in a 'universal panic' programme has been reduced to £1,435.

There are now no non-critical activities left; further savings can only be made if we allow the overall duration to increase. In other words, we have reached a schedule which has the minimum cost consistent with the shortest duration; this schedule is shown in Figure 3.

We now go on to consider what happens if we allow the duration of the entire process to lengthen; this will mean changing the duration of activities on the critical path. The procedure is similar to that already described. First we pick out the critical activity with the highest rate—it is 1-2 'Negotiate contract' at £100 a week. By expanding this to four weeks we shall increase the overall duration from twenty-six to twenty-eight weeks and reduce the total direct costs from

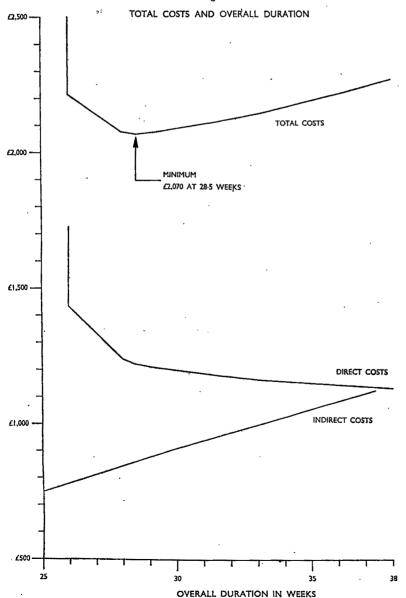
 $£_{1,435}$  to £1,235.

The next highest rate is for 17-21 'Machine' (that is, the actual printing) at £40 a week. Expanding this by 0.5 weeks, we arrive at 28.5 weeks and £1,215. It is interesting to consider what happens to the floats at this stage. That between events 20 and 21 increases from 4.5 to 5 weeks, which does not matter much. What is important is that the float along the path 22-23-24-25-26 increases to 0.5 weeks from zero. In other words, this path is no longer critical.

Suppose for a moment that there had been an activity in the sequence 22-26 which. was still capable of expansion; imagine 23-24 'Print jacket' had a rate of £20 and a range of 0.5 week. Then we should now be able to expand 23-24 without increasing the overall duration, so the effective rate for expanding 17-21 would be £40+  $f_{20} = f_{60}$ . If the ranges of 17-21 and 23-24 had been different, then the activity with the greater range would have had to be expanded in two stages, each with its own effective rate. Such potential complications even in a simple network like this give some indication of the need for electronic computation in real situations.

We now have a single





critical path, which is the vertical line from 1 to 29 in Figure 3, and successive reductions in cost do not change it; they are summarized in Table II. We originally stated that indirect costs were £30 a week, and they are also given in Table II, together with the totals.

The costs are shown graphically in Figure 4. The total costs are seen to be at their minimum value for an overall duration of 28.5 weeks. Allowing for errors of estimation, we can say that a target of between twenty-eight and twenty-nine weeks is a good one to aim at. (The least-cost schedule will not differ greatly from that shown in Figure 3, except that the path 22-23-24-25-26 will not be critical.)

#### Other Uses of Network Flow Analysis

This evaluation of the best schedule by no means exhausts the usefulness of network flow analysis. The time scale on the right of Figure 3 gives us a programme for the various events; a continuous comparison of actual and planned performances will indicate corrective measures in good time. Let us imagine that we are working to the twenty-six week schedule exactly as shown in Figure 3. During week seven we are told that a printing strike will delay composition (activity 9-10). The diagram tells us at a glance that any delay which lasts more than a week will affect the final publication date. Can we take some extraordinary action to shorten activities 10-11 and 11-12? If we cannot, shall we make the best of a bad job and delay the blockmaking (7-8) so as to save the  $f_{20}$  we had previously decided to pay for speed?

We may also use Figure 3 to re-examine the

TABLE II

Crit activ		Overall duration	Minimum direct costs	Indirect costs	Total costs
No. 1- 2 17-21 15-16 28-29 5- 6 7- 8 6- 7	Rate/ week £ 100 40 20 15 10 5	Weeks 26 28 28·5 29 31 33 37 38	£ 1,435 1,235 1,215 1,205 1,175 1,155 1,135 1,130	£ 780 840 885 870 930 990 1,110	£ 2,215 2,075 2,070 2,075 2,105 2,145 2,245 2,270

original plan. The same employees who read galleys (10-11) also check drawings (6-7) and block pulls (8-12). The last two activities are critical: the first is not. Perhaps by switching men from galleys to illustrations the publisher might shorten the critical path still further.

More implications begin to appear. If our network described building a ship instead of publishing a book, and a transfer of labour was indicated, what then? Against the reduction in cost and the prompt fulfilment of the order we must set the bogy of job-demarcation; here is a means of estimating its cost – the cost of a restrictive practice.

Again, complaints about delivery dates are so common as almost to be accepted as normal procedure. Network flow analysis can do nothing to relieve the disturbances to the schedule caused by outside influences — but at least it can minimize their effect on the completion date.

To sum up, we may say that this new aid to planning is important to accountants because:

- (1) it gives the means of preparing a systematic plan for a complicated 'one-off' undertaking;
- (2) it directs attention to those parts of the plan which are worth more careful study and possible revision;
- (3) it sets the entire working programme on a foundation of costs right at the outset;
- (4) it provides the means of controlling the costs as work proceeds, by adjusting the plan in the face of unforeseen disturbances;
- (5) it encourages the best utilization of the available resources; in particular, it enables money to be expended selectively so as to exert its greatest effect on the overall duration;
- (6) by doing so, it allows us to use a delivery date as one criterion for control;
- (7) it distinguishes clearly between direct costs and overheads and maintains a realistic balance between them;
- (8) by reducing much of the planning and control to routine calculations, it lets us delegate a large fraction of it to a computer;
- (9) it has proved its value in practice.

(Concluded.)

# Weekly Notes

#### COST ACCOUNTANTS' EXAMINATIONS

TOTAL of 6,882 candidates from the United A Kingdom and overseas - the highest number ever - sat for the June examinations of The Institute of Cost and Works Accountants and 2,407 were successful.

Of the 262 candidates for the Management Accountancy examination, fifty-five passed, the Lewton Coronation Prize for the best paper in management accounting submitted by an Associate of the Institute being won by Mr P. Hayden, A.c.w.A., A.A.C.C.A., accountant, Midleton Worsted Mills Ltd. Midleton, Co. Cork. The Beyer Peacock Prize for the best paper in management accounting by a non-Associate of the Institute was awarded to Mr M. Ashton, A.C.A., consultant, with W. D. Scott & Co (Pty) Ltd, Johannesburg.

There were 2,027 candidates sitting for one or both parts of the Final examination of whom 765 were successful. The First Place and S. Laurence Gill Prize were won by Mr P. N. Wickramasuriya, of London; the Leverhulme Prize, for the best paper in advanced cost accountancy, by Mr T. J. Slattery, also of London; and the Donald L. Moran Prize, for the best paper in management, by Mr J. A. Dickinson, of Teddington, Middlesex.

In the Intermediate there were 4,357 candidates for one or both parts of the examination, and 1,537 passed. The First Place and George Russell Memorial Prize were awarded jointly to Mr J. B. Booth, of Calcutta, and Mr R. M. Imrie, of Dundee.

There were 236 candidates in the Preliminary

examination, and thirty-five passed.

A summary of the results, together with the names of the candidates who were successful in the Management Accountancy examination and those who successfully completed the Final, appears elsewhere in this issue.

#### SCOTTISH CHARTERED ACCOUNTANTS' SUMMER SCHOOL

"HE tenth summer school of The Institute of Chartered Accountants of Scotland opens at the University of St Andrews next Friday, August 31st, and continues until Tuesday, September 4th.

The President of the Institute, Mr James C. Stewart, c.a., will welcome members on Friday evening and his address will be followed by a paper entitled 'The growth of public expenditure and its control', by Professor D. J. Robertson, M.A., Professor of Applied Economics at Glasgow University. The other papers to be presented are: 'A critical review of recognized accounting conventions', by Mr R. A.

Morison, M.A., C.A.; 'Financial controls in industry', by Mr. W. L. Spalding, B.SC., C.A., F.C.W.A., F.C.I.S., and "The young chartered accountant looks forward', by Mr J. C. Shaw, B.L., C.A., A.C.W.A., and Mr A. L. Stewart, C.A., M.I.O.M. With the exception of the latter paper, which will be followed by general open discussion, there will be discussion in groups after each of the other papers and at a subsequent session the author will review points raised by the groups.

Social functions will include a reception by the University Court - to mark the tenth anniversary of the holding of the school - when the Principal of the University of St Andrews, Sir Thomas Malcolm Knox, M.A., LL.D., F.R.S.E., will welcome members; a golf competition, and the Summer School Dinner at

which the following guests will be present:

Herr Dr W. Dieterich, Director, Institut der Wirtshaftsprüfer in Deutschland, e.V.; Mr A. W. Graham, B.COM., F.R.A.N.Z., Secretary, The New Zealand Society of Accountants; Professor A. A. Matheson, Q.C., M.A., LL.B., Master, Queen's College, Dundee, and Professor of Scots Law, The University of St Andrews; Mr R. P. F. Olden, F.C.A., Vice-President, The Institute of Chartered Accountants in Ireland, Mr W. Stuart Crr, B.A., LL.B., A.C.A., Secretary, The Institute of Chartered Accountants in Ireland, and Professor J. N. Wright, M.A., Master, St Salvator's College, and Professor of Logic and Metaphysics, The University of St Andrews.

A report of the Summer School proceedings will

appear in our next issue.

#### MANAGEMENT CONSULTANCY

"HE appointment by Imperial Chemical Industries I of the U.S. management consultant firm, McKinsey & Co, to conduct a large-scale survey of its operations, draws attention to the increasing use by British industry of specialist consultants, and in many cases of U.S. firms. A profits squeeze, such as many branches of British industry have experienced in the last few months, is inevitably a period when companies seek to discover whether they can restore profitability by internal economies and reorganization: many companies undertake such reorganization using their own internal resources, but a growing number prefer to employ consultants both on account of the wide experience accumulated by the leading firms and because what are often unpopular decisions can best be implemented if it is known that they have been reached by an independent organization, without being influenced by internal loyalties and traditions.

The growing employment in this country of U.S. firms is creating some surprise, particularly since in general the fees charged by U.S. consultants are higher than those of British firms. That this is not reducing the volume of work available for the leading British firms is shown by the latest report of Inbucon, the holding company of Associated Industrial Consultants, which notes that the number of consulting staff and the company's turnover have both

reached an all-time record. The reasons for the employment of U.S. firms no doubt vary from one assignment to another. It does appear, however, that one reason for the success of the U.S. firms may be their skill not only in selling the need for a survey but also in putting over to the employees the reasons for the main recommendations resulting from the survey. There is no doubt that a number of U.S. firms have recently intensified their efforts to increase the number of their assignments both in this country and on the Continent. Hitherto the use made of management consultancy in Europe has been considerably less than in either the U.K. or the U.S.A. and this represents a field with excellent prospects for both British and U.S. firms.

#### ESTATE DUTY ON BUSINESS ASSETS

COMPLAINTS about the effects of estate duty in its effect on the assets of established businesses, particularly those carried on by family companies, gave rise to some ameliorating provisions in the Finance Act, 1954, which, needless to say, lacked nothing in complexity. The Association of Certified and Corporate Accountants published a booklet which expounded the new provisions and gave very useful guidance. Of course, much was in doubt at that time and it was too early to give a final answer to some of the problems which were thrown up. Eight years have now passed and a good deal of experience has been gained of the working of the new provisions.

The time was therefore ripe for a further contribution on this important topic and we welcome a new booklet from the Association entitled *Estate Duty on Business Assets*. The subtitle indicates that the booklet sets out the effect not only of the Finance Act, 1954, but also of the Finance Acts of 1940 and 1960. The booklet is very clearly printed and is divided up into numbered paragraphs, with tabulations where appropriate. There are also some useful arithmetical examples, which do so much to clarify the obscure verbiage of the legislation itself. The price of the booklet is a mere 3s 6d.

#### GENEVA TARIFF NEGOTIATIONS

As a result of the Geneva Tariff Negotiations 1960 to 1962, tariff concessions will be made on products exported from the United Kingdom to a total value of approximately £425 million in 1959. Details of the results of the negotiations were recently published in the Report on the Geneva Tariff Negotiations 1960–1962.

Under the agreement with the United States the latter undertook to reduce by one-fifth their duties on products in which British trade in 1959 was worth about £73 million. Concessions made by the U.S.A. to other countries, particularly the European Economic Community, and extended to the United Kingdom under the most-favoured-nation principle,

<sup>1</sup> Cmnd 1804. H.M.S.O. 1s.

affected British trade with the U.S.A. to the value of over £100 million in 1959. The concessions are to be implemented in two equal stages, the first on July 1st, 1962, and the second a year later.

Reductions in the Common Tariff of the E.E.C. affect British exports valued at some £28 million in 1959. In addition the first stage of the conference was concerned with re-negotiation of prior tariff commitments of the E.E.C. Compensatory concessions were made by the Six in order to secure release from prior commitments where the application of the Common Tariff involved raising duties above the previous level of individual member States. Reductions in import duties under this head affected United Kingdom exports valued at about £36 million in 1959.

In the second stage of the conference, twenty-seven bilateral agreements for new concessions were concluded between existing contracting parties and Switzerland. Besides the agreement with the U.S.A. already referred to, the United Kingdom concluded such an agreement with the E.E.C. under which the latter undertook to reduce, generally by one-fifth, the Common Tariff on a wide range of products including some leather goods, marine engines, refrigerators, agricultural machinery, electrical equipment and commercial vehicles. The value of British exports to the E.E.C. affected by these concessions was about £184 million in 1959. In return British tariff reductions will be made on imports from the Community and the U.S.A. valued at about £115 million and £79 million respectively.

The concessions made by the E.E.C. will not come into full effect until the Common Tariff replaces the individual tariffs of the member States, and so far as British trade with the E.E.C. is concerned, the agreement may be overtaken by events if agreement is reached for the United Kingdom to join the E.E.C.

#### ECONOMIC GROWTH COMPARISONS

MEMORANDUM recently published by the Director-General of the Statistics Bureau of the European Economic Community provides some useful comparisons of current and future industrial production in the United States, the E.E.C. and Soviet Russia.

The memorandum concludes that in 1956 industrial production in the European Economic Community was about equal to that in the Soviet Union, and about 45 per cent of that in the U.S.A. On a per capita basis, industrial production in E.E.C. was roughly 46 per cent of United States output, whilst that in Russia was approximately 38 per cent. Between 1956 and 1959, industrial production in E.E.C. rose by 16 per cent; in the U.S.A. production in the latter year was 6 per cent above that in 1956. In the same period, the Soviet index of gross industrial production showed an increase of 38 per cent, but the Director-General prefers the more cautious estimate of a 26 per cent increase. This smaller figure implies that in 1959, industrial production in

the U.S.S.R. was at least 55 per cent of U.S. production. Production in E.E.C. had reached 50 per cent of its American counterpart.

Although the Director-General makes forecast comparisons for 1972, he does not provide actual comparisons for 1961. These can easily be obtained by linking the published 1961 figures with the comparisons made for 1959. Between 1959 and 1961 industrial production in E.E.C. countries rose by 19 per cent; in the U.S.A. by 2½ per cent, and in the U.S.S.R. the reported growth was 18 per cent. On the basis of these figures, industrial production in the E.E.C. was of the order of 58 per cent of that in the U.S.A. If Soviet figures of industrial growth are used throughout the 1956 to 1961 period, these imply that Russian production in 1961 was just over 70 per cent of that in America. If, however, the rise in the Russian index of industrial production between 1956 and 1961 is scaled down as before, the proportion falls to 63 per cent.

For the future, only arbitrary assumptions can be made about rates of growth. Moreover, in view of the statistical difficulties which are inherent in the U.S.S.R. indices of gross industrial production, the Director-General prefers to use his own indices based on forecast steel consumption. Between 1959 and 1972, industrial production in the E.E.C. area is assumed to rise by 4.2 per cent per annum, and in the U.S.A. by 3 per cent. In the twelve years, total production in the United States would then rise by 43 per cent and in the E.E.C. countries, taken as a whole, by 62 per cent. These rates would mean that industrial production in the present E.E.C. area in 1972 would be approaching two-thirds of the U.S. level. The Director-General suggests that in 1972 industrial production in the U.S.S.R. will have reached that achieved in the United States some sixteen years earlier, and amount to about 70 per cent of U.S. production in 1972. Many experts would, no doubt, suggest an appreciably higher figure. Per capita comparisons in 1972 are likely to favour E.E.C. countries, and be to the the further detriment of the U.S.S.R., than the total output comparisons.

# INTERFIRM COMPARISONS IN THE COTTON INDUSTRY

THE Cotton Board Productivity Centre's Scheme of Inter-firm Comparison is now available to all firms in the cotton industry. The scheme permits participating firms to compare their results with those of their competitors by means of some thirty ratios. The primary ratio is that of profit as a percentage of assets employed and participants are arranged in order of this ratio. The remaining ratios permit the firm to analyse its performance in particular sectors, and to determine where the main strengths and weaknesses lie.

While no scheme of comparison can be of much value if there are wide differences between the

activities of the firms participating, it is important that the ratios used should be such that minor variations in the nature of the businesses should not greatly invalidate the comparisons. A pilot scheme conducted by the Productivity Centre in the Spinning Section of the cotton industry provided valuable information and it is claimed that the full-scale scheme now being started provides a uniform and commercially acceptable method of valuing assets employed and calculating profit. In addition, in order to eliminate difficulties which might arise as a result of differing raw materials, profit and all cost items are expressed as a percentage of 'value added' (i.e. sales less raw materials) rather than of sales. In drawing up the scheme the Cotton Board Productivity Centre has had the advice of the Centre for Inter-firm Comparison Ltd, which has, of course, initiated a number of similar schemes in other industries.

# CHEAPER ALTERNATIVE TO REGISTERED POST

NE result of the recent passing into law of the Recorded Delivery Service Act, 1962, will be to ease the work and lessen the cost of mailing many financial and legal documents. Until this Act received the Royal Assent, the use of the registered letter service for the sending of many documents was obligatory. The new Act amends about one hundred public and general Acts and a considerable number of private Acts, and provides that the recorded delivery service may now generally be used as an alternative to the registered service for the sending or service of documents by post.

or service of documents by post.

Although the recorded delivery service was introduced in 1961 as in certain respects a cheaper alternative to the more costly registration service and is already being used at a rate of about ten million items a year, it could not be fully used, however, because many existing Acts of Parliament provided for the sending or service of certain documents by registered post. The new Act removes this restriction in most cases.

The amendment of the law affects both public and general Acts and local and private Acts passed before the end of the present session of Parliament, though not Acts of the Parliament of Northern Ireland, nor any local or private Act which extends only to Northern Ireland. Many of these, however, have already been amended by later statutory instruments to allow use of recorded delivery, and amendments to others will doubtless follow.

Of course, the recorded delivery service carries no compensation for loss in transit as the more costly registration service provides; it simply furnishes proof of delivery, the fee being 6d in addition to normal postage. (The minimum inland registration fee is 15 6d, which covers compensation up to £20; maximum inland registration fee of 35 1d covers loss up to £400.)

#### THE T.U.C. REPORT

IN a year which has seen the first Government moves towards economic planning and the attempt to enforce the pay pause it is not surprising that economic affairs should occupy a prominent position in the T.U.C. General Council's annual report. Rather it might have been expected that these questions would have taken up considerably more than the 10 per cent of the report which they in fact occupy

The report, which to a large extent sets the scene for the Annual Congress in September, covers a very wide range of topics and is a straightforward account of the activities of the T.U.C. over the past year. These include efforts on behalf of particular groups of employees such as those which persuaded the

Government to order an inquiry at a cost of £65,000 as to whether occupational deafness should be prescribed under the Industrial Injuries Act; discussions on dismissal procedures and sick pay agreements; the probable effects of automation in industry; views on the effects of the work of the Monopolies Commission and on decimal currency; and many others.

The main criticism of this year's report appears to be that in the broad field of politics and economics the General Council has been strongly opposing the Government's views on wages and incomes without having any detailed proposals of its own. There are signs that the need for such proposals will be strongly advocated at the Annual Congress, though they may well take far too long to formulate.

# This is My Life . . .

by An Industrious Accountant

CHAPTER 134

IT is rarely claimed that accountants as a tribe are of the bird of paradise group. They may be fine birds, but not fine-feathered ones. The black coats and bowler hats of the city, the briefcases and rolled umbrellas beside the boardroom table, all bespeak a serious and sombre approach to life. For them, the appropriate symbol is perhaps Poe's raven on its pallid bust, quoting its gloomy 'Nevermore' to all and sundry. So it used to be in our firm. Alas, it is no more.

It started with our engineer. A busy man, he sought an assistant to help with the specifications for our new wing, and ultimately found himself with a black-browed compatriot from Pembrokeshire. This hardworking youth, for ever clambering nimbly around scaffolding and roofs and whatnot, took to dressing the part. He sported a leather jacket with upturned fur-lined collar, and a gaudy cap which whispered of commandos and daring deeds in the deadly breach. He gained enormous prestige. The typists wilted and blushed as he stalked by; my darkly proper accounting staff nearly choked with envy.

Insidiously, the malign influence permeated my junior staff. Doffed first were the coats. Shirt-sleeved, holding in their waistlines for maximum impact, the men from costs swaggered through the corridors. The counting-house stalwarts displayed multicoloured sports shirts and spotted bow-ties. Frank, of the internal audit staff, sported a blazer with a magnificent embossed crest and a tie resplendent

with dragons. The ledger clerks, traditionally forbidden to go coatless, compromised on gaily checked sports jackets.

All to no avail. A spell of wet weather turned the new foundations into a quagmire; the Pembroke man, in high-laced boots and a red-and-white-check belted jacket, Yukon style, outshone them all. I thought back to my articled clerk days when two of us came to work in sports coats and flannels one day in mid-week; our august principal nearly had a heart attack at sight of our depravity. Actually, he ordered us home at once to change into more becoming apparel before inflicting ourselves on the firm's sensitive clients.

Came July with its short but torrid heat-wave. Came also a deputation to our office manager, a high-principled stickler in matters of discipline. "They all work in shirt-sleeves in America!" was the cry, clearly based on uncritical absorption of Hollywood's productions. The office manager was caught napping. That day he was wearing a silky lightweight coat of tussore, thus tacitly admitting the justice of the claim. He played it cute; he came to me for a ruling. I was sitting coatless in the midday glare when they arrived unannounced and I, too, was caught out.

It was hard to make the right decision. To be coatless had become a status symbol; they promised their shirts would be freshly laundered; even that they should be white in all cases. I had to be adamant. Those dealing with customers and their accounts must be fully dressed. The argument grew heated. We were all acutely but tacitly conscious of our one young and charming lady ledger clerk, whose costume was white, clean and fresh – what there was of it!

A wily delaying manoeuvre paid off handsomely. By Monday it was pouring with rain; furthermore, we heard that the engineer was in bed with blistered shoulders, having sunbathed to excess over the week-end. Amid general rejoicing, we adjourned sine die.

# Finance and Commerce

#### No Ill-Feeling

THIS week's reprint features the accounts of Cranes (Dereham) Ltd, trailer manufacturers and engineers, if for no other reason than to show that this column bears no ill-feeling. The cause of it all is pictured on the front cover of the company's annual report. Illustrated there, in all its hugeness, is: 'The first hydraulic suspension transporter in the world to employ as many as forty giant tyres in ten rows for the carriage of abnormal loads'.

It is further described as 'the biggest and most advanced road transporter in Britain (and for that

matter in the world, for there is nothing in Europe or America to match it) yet its flexibility and steerability is designed to cope with very difficult road conditions in the hands of its highly skilled crew'.

This column's Morris Minor encountered the monster on its first outing somewhere in the region of Barking, Essex, and humbly and patiently bowed its head for three-quarters of an hour waiting for an opportunity to overtake. No matter that 'the carrying frame is adjustable in length, in width and in height'; that 'the number of axles can also be varied according to the weight of the particular load and the limitations of particular bridges to be crossed'; or that it 'incorporates the results of close consultation . . . with the Ministry on questions of weight, number and spacing of axles', the mile-a-minute Minor had to take its place in the queue and give this unique vehicle best. May readers be preserved from such an experience.

#### Clarity

The accounts deserve a word of commendation for their printing, style and layout. It is impossible to do full justice to the two-colour original in the reprint.

#### CRANES (DEREHAM) LTD

PROFIT AND LOSS ACCOUNT For the year ended 31st March, 1962

	1962	•	1961
TRADING PROFIT, before charging the following items:-	£	£ 85,367	· £ 96,142
	10,908 245		10,053 245
	,050 ,791		985 9,318
Interest on Debentures (Gross) Pension Scheme—Employees	11,841 4,356 4,816		4,764 4,776
		32,166	30,141
PROFIT FOR THE YEAR BEFORE TAXATION		53,201	66,001
Less Provision for Taxation based thereon:—			
Profits Tax Income Tax	8,000 22,000		8,250 25,351
		30,000	33,601
PROFIT FOR THE YEAR AFTER TAXATION		23,201	32,400
Add Provision for Taxation in previous year not required:		2,032	591
AVAILABLE NET PROFIT FOR THE YEAR		25,233	32,991
Add Balance brought forward from 1960 Accounts		39,844	34,256
BALANCE AVAILABLE FOR APPROPRIATION		65,077	67,247
Less Appropriations:—		•	
Transfer to Debenture Redemption Reserve Transfer to General Reserve	5,000 10,000		5,000 10,000
Dividends for the year, less Income Tax Ordinary Shares:—			·
Interim Dividend of 5% (5%) Paid Proposed Final Dividend of 17½% (17½%)	2,756 9,647		2,756 9,647
	the Marie and the second	27,403	27,403
BALANCE CARRIED FORWARD		£37,674	£39,844

# CRANES (DEREHAM) LTD

CAPITAL AND RESERVES	2962	j 1961	EMPLOYMENT OF CAPITAL	1963 £	£ £	3 1961
<b>4</b> 0°	Authorised Issued 40,000 90,000 90,000	90,00	FIXED ASSETS Freehold Properties at cost Loss Depreciation	99,052 10,882		98,862 9,212
£130,000	000			Hereitelenseth	88,170	89,650
		,	Plant Machinery and Equipment at cost Less Depreciation	120,076 62,705		109,212 53,468
	40,000	40,000	•		57,371	55,744
20,000 60,000 37,674		15,000 50,000 39,844	Trade Investments at cost Crane Fruehauf Trailers Led		145,541	145,394
	117,674	104,844	ACCION CIQUIAI Straigs Of Ast date:		20101	2
64,167 5,834		70,000	COURENI ASSELS Stock and Work in Progress Debtors Less Provision for Doubtful Debts (£1,500) Cash in Hand	157,338 167,306 340		· 206,994 133,569 1,744
Ì	58,333	64,167	Kedemption Policy (fully paid up) (surrender value £8,522 15s. 0d.)	9,574		9,574
	306,007	299,011		£334,558		£351,88
•	22,000	27,250	Dadure			
			CURRENT LIABILITIES AND PROVISIONS Trade Creditors and Accrued Charges Bank Overdraft (note 2) Current Taxation Proposed Final Dividend less Income Tax (on Ordinary Shares)	76,548 97,897 8,000 9,647		91,426 61,791 8,250 9,647
			CURRENT ASSETS less CURRENT LIABILITIES	-	142,466	180,767
	£328,007	£326,261	TOTAL NET ASSETS		£328,007	£326,26

The main use of colour is in the light blue for the comparison; blue is also used for the main headings giving them added prominence in their larger type. Trading profit, profit before and after tax are given this distinction which is also applied to the group headings in the balance sheet – fixed assets, current assets, etc. This, in fact, is a good example of what a little forethought can do in the interests of clarity in published accounts.

Turnover this year is below last year's record but Mr L. H. Allwood, the chairman, tells share-holders that he had prepared them for this in his last statement. The company, is not, however, among those which have advanced to the point of giving a turnover figure in its public reporting – a matter Mr Allwood might bear in mind for the future.

The profit fall to £53,200 before tax from £66,000, he says, is almost due to increases in overheads and, in particular, to increases in the cost of the sales organization. But it is to an increased sales organization that he attributes the fact that 'the accounts for the year show a reasonable profit'.

#### **Current Value**

THERE was a shareholder at the recent J. Lyons & Co Ltd meeting who wanted to know something about the current value of the group's properties. Did the chairman know the current value? The shareholder was evidently seeking to relate trading results in current money to the value of assets employed in current money. He referred to profits being 'static' and remarked that shareholders had never been given turnover figures.

He outlined the vast extent of the Lyons' empire - the Cumberland, Strand Palace, Regent Palace and Ariel Hotels, the Trocadero, Cadby Hall, fifty-seven acres of factory at Greenford, the Leo-Computer business, and business interests in Canada, South Africa, Rhodesia, Eire, Jersey and Tanganyika, and he asset figures given in the accounts. to the return to stockholders. Freeholds leaseholds, and

said, were lumped together in the balance sheet.

Mr B. A. Salmon, the chairman, admitted that it was not the first time the question of a property revaluation had been raised. But even if the properties were revalued, it would not add anything to profits or to dividends. The properties never had been revalued - it was an expensive business to do so. And stockholders should remember that much of the property was industrial.

As to the division of freeholds and leaseholds, this was a point the directors were bearing in mind. They had considered it before and had not adopted the idea, but they would go on considering it. On the matter of profits, the board itself was not satisfied. But, said the chairman, this was a highly competitive business and 'we strive very hard'.

#### Conservatism

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The shareholder, returning to the fray, took up the point that revaluation would do no good. It would, he observed, probably show that they were earning even less than appeared to be the case on the stockholders' invested money. To which the chairman replied: 'I do not share the view that properties or any fixed assets should be valued periodically.'

That, of course, is a point of view which many may support. Many more believe that a change in the value of money, such as has been seen in the space of a comparatively few years, so fundamentally alters the situation that it is wise to give it practical effect. But whatever may be said about Lyons' business energy, it has had the name for being conservative in its published accounts; and once that sort of reputation has been established - once it is popularly regarded as a company tradition - the impression it leaves is not easily lost. Witness, for instance, what was said about Courtaulds' reticence with its shareholders at the time of the I.C.I.-Courtaulds affair.

It was once openly admitted in Lyons' circles that only sufficient profit was brought into the published accounts to maintain a 22 per cent dividend with a small margin. This might seem monotonous, said the chairman of those days, but it was not entirely unpleasant.

#### CITY NOTES

THE equity rally in the stock-markets has faded after having lasted longer than was expected. Obviously, the early pace of the rise was too keen to last and price gains tended to exaggerate the amount of buying support involved; but there was buying in fair volume both on small investor and institutional account.

That the rally faded without being tested to any great degree by bad industrial or economic news, indicates fairly enough that buyers are not prepared to buy anything at any price. To that extent the rally had a reasonably solid basis.

Movements in the market now provide an interesting test of conditions under the influence of the short-term capital gains tax. Had short-term gains still been tax-free, it is reasonable to assume that the rally would have attracted a great deal more professional short-term support and would have been more vigorous as a result, but so would have been profit snatching.

By the same token any drift downwards is likely to be more marked than it would have been under normal operational conditions. The market used to rely on short-term business to provide a dealing buffer against wide fluctuations. With such business pinched out by tax, the ebb and flow of prices within a basic trend will undoubtedly become much more marked.

A 10 per cent rise or fall under present conditions is not necessarily the yardstick of a trend change. The equity rally does not mean boom round the corner.

#### RATES AND PRICES

Closing prices, Wednesday, August 22nd, 1962			
Tax Reserve Certificates: (interest rate) 28.4.62 23%			
Bank Rate			
Oct. 27, 1960	5 <del>1</del> %	Nov. 2, 1961	6%
Dec. 8, 1960	5%	Mar. 8, 1962	51/2%
July 26, 1961	7%		5%
Oct. 5, 1961	61/4%		41/2%
Treasury Bills			
Tune Tr			.0
	14s 4.01d%		8s 7·14d%
		July 27 £3	75 8·89d%
	18s 5.03d%	Aug. 3 £3	16s 5.05d%
	18s 0.63d%	Aug. 10 $f_{3}$	55 8·84d%
July 13 £3	17s 9.32d%	Aug. 17 £3	15s 8·35d%
Money Rates			
Day to day	2 <del>7</del> 37%	Bank Bills	
7 days	23 34%	2 months	4-4 18 %
Fine Trade Bills		3 months	4-418%
3 months	51-6%	4 months	4-4 18 %
4 months	5 <del>1</del> -6%	6 months	4-41%
6 months	5 <del>1</del> -61%		4 4870
Foreign Exchanges			
New York	2·80 32	Frankfurt	11.108
Montreal	3.03	Milan	1739
Amsterdam	10.10 <sup>§</sup>	Oslo	20.03
Brussels	139.35#	Paris	13.73
Copenhagen	19.383	Zürich	12.10
Gilt-edged			
Consols 4%	66 <del>1</del>	Funding 3% 59	-69 88 <del>18</del>
Consols 2½%	43 🕏	Savings 3% 60-	70 84 <del>1</del>
Con'sion 51%	1974 97 15	Savings 3% 65-	
Conversion 5% 1971 96 18 Savings 21 % 64-67 89 18			
Con'sion 21% Tobo 80.5 Trees'ry r1% 2008-72 02 1			

Treas'ry 5½% 2008-12 Treasury 5% 86-89 Treasury 3½% 77-80 Treasury 3½% 79-81 Treasury 2½%

Victory 4%

War Loan 31%

43 i

59 fs

Con'sion 5½% 1974 97½ Conversion 5% 1971 96½ Con'sion 3½% 1969 89½ Conversion 3½% 59½ Exchequer 5½% 1966 101½ Funding 5½% 82-84 95½ Funding 4% 60-90 90½ Funding 3½% 99-04 64½ Funding 3% 66-68 88½

# Current Law

#### **Expulsion of a Partner**

CLAUSE 31 of a partnership agreement between three solicitors, E., N. and S., provided that if during the continuance of the partnership any one of them should commit or be guilty of any act of professional misconduct the others might by notice in writing expel him. E., purporting to act in pursuance of this clause, served on each of N. and S. a notice to expel them for their alleged misconduct.

In Re A Solicitor's Arbitration ([1962] 1 All E.R. 772) the case came before Russell, J. (as he then was), on appeal from an arbitrator who held that the notice was ineffective and that E. had no power to expel either of his partners save as a joint action with the other. E.'s case was that clause 31 should be read in the light of section 61 (c) of the Law of Property Act, 1925, which provides that in all deeds, unless the context otherwise requires, the singular includes the plural, and vice versa, so that clause 31 was made to provide that 'if during the continuance of the partnership any partner or partners shall commit' one of the defaults mentioned in the clause, 'then and in any such case the other partners, or partner, may by notice in writing expel him or them from the partnership'.

Russell, J., however, rejected the argument that section 61 (c) had this effect, while pointing out that, if one of the three partners died, it would operate so that where one partner could do something only with the consent of 'the other partners' those words would be read as 'the other partners or partner'. His lordship observed that the idea of a minority being able to expel a majority was inconsistent with section 25 of the Partnership Act, 1890. He accordingly ruled that E. alone had no power to expel N. and S.

#### Liability of Partners in Tort

IN Meekins v. Henson and Others ([1962] I All E.R. 899) the plaintiff claimed damages for an alleged libel contained in a letter signed by the defendant S., who was in partnership with the defendants H. and V., and who wrote the letter on behalf of the partnership. It was not disputed that the words complained of were defamatory. The occasion was one to which qualified privilege attached, but the jury found that H. – though not S. or V. – had been actuated by malice. It was contended for the defendants that none of them was liable on the ground that under section 10 of the Partnership Act, 1890, no tort by S. was established. Section 10 provides that

'Where, by any wrongful act or omission of any partner acting in the ordinary course of the business of the firm, or with the authority of his co-partners, loss or injury is caused to any person not being a partner in the firm . . . the firm is liable therefor to

the same extent as the partner so acting or omitting to act.'

It was argued that no partner other than the partner acting wrongfully and thereby causing injury could, in law, be liable to a greater extent than the partner acting, from which it followed that if the partner acting were not liable in law, the others could not be liable at all.

Winn, J., held, however, that if liability arose from a duty owed by a partner, other than the acting partner, which was personal to him or where he himself was involved actively in the commission of the act complained of, albeit the hand which did it was the hand of another partner, the injured person did not need to avail himself of the provisions of section 10; he complained of a tort committed by a partner other than the partner whose hand actually performed the deed. In the present case publication of the libel must be regarded as a publication by each one of the three defendants. Each of the three had a personal privilege with respect to the publication complained of, but in H.'s case it was destroyed by proof that he was actuated by malice; accordingly, liability attached to him, and to him alone.

#### **Remuneration of Professional Trustee**

N Re Wells, Wells and Others v. Wells and Others ([1962] 2 All E.R. 826) the Court of Appeal dismissed an appeal from the decision of Cross, J. ([1962] 1 All E.R. 812), in an action in which the beneficiaries under a will claimed an inquiry against an accountant and a solicitor, who were trustees of the will. The will contained a professional charging clause and the accountant and the solicitor had retained £1,983 178 3d and £3,072 respectively out of the estate for their charges and costs. The size of these sums, and also the manner in which they had been apportioned between capital and income, was challenged by the plaintiffs. The nature of the remuneration given to a professional trustee by a charging clause is that of a legacy, and Cross, J., pointed out that it is one of such sum as, in default of agreement between the beneficiaries and the trustee, the Court may decide is a reasonable amount for the trustee to charge for his services; furthermore, a beneficiary has an absolute right, at his own risk as to costs, to have the trustee's accounts investigated and the charges gone into.

In Re Wells, the defendant trustees sought particulars specifying what would be reasonable remuneration for their work. These would have enabled them, had they thought fit, to make a payment into Court of the maximum amount claimed by the plaintiffs as being an excess wrongfully retained, while the plaintiffs would have been restricted to recovering that amount, albeit independent tribunals to which (by agreement between the parties) the reasonableness of the payments was being referred might have determined that the excess was larger. The Court of Appeal agreed with Cross, J., in holding that the action was in substance an action for an account. Lord Denning, M.R., with whom Harman and Russell, L.JJ., agreed, said

that when the defendants had given the plaintiffs particulars of their charges, which they had not yet done, and the plaintiffs had taken their objections to them, the parties would be in a position to deal with such matters as payment into Court; but that at the present stage, when those particulars had not been given, the defendants were not entitled to the particulars for which they asked.

#### Winding-up Petition: Amount of Debt in Doubt

[N Re Tweeds Garages, Ltd ([i962] 1 All E.R. 121) La petition to wind up the company on the ground that it was insolvent and unable to pay its debts and that it was just and equitable that it should be wound up (see section 222 (e) and (f) of the Companies Act, 1948) was resisted on the basis that the exact amount of the company's indebtedness was in dispute, and that the company was not insolvent. So far as the second point of the company's case was concerned, Plowman, J., referred to the explanation of insolvency in the relevant sense in Buckley on the Companies Acts (thirteenth edition, page 460), namely, that a company which has not assets available to meet its current liabilities is commercially insolvent and may be wound up, albeit it has wealth locked up in investments not presently realizable: his lordship said that there was abundant evidence that the company was insolvent and he so found.

As regards the first point it appeared that there

was no direct authority on the question whether to come within the rule that the Court will not make a winding-up order on a disputed debt the existence of the debt must be disputed, or whether it was enough that only the amount should be disputed. Plowman, J., was satisfied that, whatever the exact amount involved, the company was at all material times very heavily indebted to the petitioners. His lordship referred to section 223 of the Act which provides that:

'A company shall be deemed to be unable to pay its debts . . . (d) if it is proved to the satisfaction of the Court that the company is unable to pay its debts'. . . .

and to section 224 (1) which provides that:

'An application to the Court for the winding-up of a company shall be by petition presented, . . . by any creditor or creditors. . . .'

From those provisions, said his lordship, it appeared that the only qualification which was required of the petitioners in the case before him was that they were creditors, and about that there was really no dispute. Where, as here, there was no doubt that the petitioner was a creditor for a sum which would otherwise entitle him to a winding-up order, a dispute as the the precise amount thereof was not a sufficient answer to his petition. It would be wrong to put the petitioners to the trouble and expense of quantifying the precise amounts owing to them, and accordingly the usual compulsory order would be made.

# Reviews

#### Common Market Law: Texts and Commentaries

by Allan Campbell, M.A. (Cantab.), and Dennis Thompson, M.A. (Cantab.). Stevens & Sons, London. 70s net.)

Few people, even at this stage, fully appreciate that entry into the Common Market would entail an industrial and economic revolution in the United Kingdom. Tariff barriers between member countries would be lowered and, eventually, would disappear. Prices and contracts would have to be radically revised to meet conditions of unrestricted competition. Companies and individuals would be at liberty to establish themselves within the geographical boundaries of the Market without formality. In consequence of these and other changes in the present insular way of life in Britain, countless legal and constitutional questions would arise which would keep the authorities continuously busy for a very long time.

Thoughtfully anticipating this last contingency, Mr Campbell and Mr Thompson, both barristers-atlaw, have provided an excellent commentary on the Rome Treaty (the text is given in full), together with an able analysis of the structure and policies of the European Economic Community which it brought into being. They also make instructive comparisons between the laws of the six member nations and those of the United Kingdom on such vital matters as company formation, patents and restricted trade practices.

Always mindful that their function is one of interpretation, the authors do not attempt to criticize the equity or otherwise of the conception of common trading but are content to clarify the stated aims of the Treaty and the means of attaining them. The result is a book of considerable distinction which should provide lawyers, accountants and business men with much that they need to know about the Market and its impact not only on commerce and economics but, also, on diplomacy and politics.

The publishers announce that supplements giving news of latest developments will be issued from time to time, an enterprising move which should help to keep the text of the present edition, read in conjunction with the supplements, topical.

#### June 1011 Marie Carppionis, Topico

The Clerical Function

by Allan A. Murdoch, A.C.W.A., A.A.C.C.A., A.C.I.S., and J. Rodney Dale, M.A., Ll.B., B.SC. (ECON.). (Sir Isaac Pitman & Sons Ltd, London. 30s net.)

The limited scope of this small book, written primarily

for students, can hardly be said to merit its allembracing title. Although providing a basic guide, it should not be considered as the answer to all problems since some aspects of the subject are dealt with in great detail whilst others, equally important, are dismissed in a few lines.

The examples quoted in the chapter entitled 'Machine aids' are limited to a restricted selection of equipment and may thus tend to colour the outlook of a student who should realize that there are other manufacturers than those mentioned in the text, producing machinery which will serve the same purpose equally well. Indeed, some of the equipment listed is not the most up to date and students and practitioners should consult the manufacturers before advising clients thereon.

The chapter on 'Clerical work study and progressing' is useful for students and practitioners alike, while the last chapter, entitled 'The physical environment', could be read with advantage by many employers, the working conditions of whose staff is by no means all that is to be desired.

To conclude, this book can be said to serve as a basic introduction to a subject upon which much has been written, yet much more has still to be learned.

#### Who Owns Whom (U.K. Edition)

(Compiled and published by O. W. Roskill & Co (Reports) Ltd, London. £7 post free (U.K. only)).

The design and scope of this compilation, described in its sub-title as 'a directory of parent, associate and subsidiary companies in industry and commerce', becomes more ambitious each year. In this edition, there has been a rearrangement of United States companies and their subsidiaries. It has been decided to confine the directory entirely to United Kingdom parent companies with their associates and subsidiaries and to United Kingdom associates and subsidiaries of foreign parents, and that henceforth its title will be Who Owns Whom (U.K. edition). Its counterpart, Who Owns Whom (Continental edition) will then be restricted to continental parents with their associates and subsidiaries and to non-European parents with their corresponding continental connections. The 1962-63 edition will appear in the autumn and will include, for the first time, all the six member countries of the European Common Market. The 1961-62 edition covered only France, Italy and Western Germany which means that Holland, Belgium and Luxemburg will be the new-comers.

An indication of the growth of commercial enterprise in the United Kingdom is given by the annual increase in the number of entries in the directory. In 1960, 16,000 United Kingdom associates and subsidiaries were listed and in each of the last two years this figure has risen by 3,000 to the current total of 22,000. The more complex the ramifications of 'big business' become, the greater is the need for a guide to its structure and this is being admirably supplied

by the timely appearances of the Who Owns Whom volumes whose publishers, judging by their preface, seem to have a perfect understanding of the needs of directors and executives of purchases and sales departments as well as those of accountants, economists and investment managers.

#### Theory of Money

by W. T. NEWLYN. (Oxford University Press, London. 18s net.)

This is a theoretical study of money intended primarily for professional economists interested in the debate initiated by the Radcliffe Report. The author is sympathetic to the Radcliffe Committee's rather restrictive views on the efficacy of monetary policy as an economic stabilizer in the modern economy. He considers that monetary policy should be used to provide the overall framework of economic conditions; violent changes in policy being eschewed in preference to the use of other economic weapons of control.

#### The Law List

Edited by LESLIE C. E. TURNER. (Stevens & Sons Ltd, London. 35s net, 37s 6d by post.)

This indispensable work of reference for the laywer is also of value to accountants and others outside the legal profession.

Queen's Counsel, officials of the various Courts and Government legal departments are listed, together with lists of barristers-at-law, members of the General Council of the Bar, the Council of The Law Society, Advocates of the Scottish Bar and Counsel of the Irish Bar. London, suburban and country solicitors are also listed.

The officials of the various areas and area committees functioning under the Legal Aid and Advice Act, 1949, are also shown, together with the names and secretaries of the provincial law societies and associations, the names of solicitors practising outside England and Wales and those of Scottish solicitors practising in England.

Dominion representatives and agents-general in London as well as judges of the International Court of Justice are given in an international section of the book.

#### RECENT PUBLICATIONS

Common Market Law: Texts and Commentaries, by Alan Campbell, M.A.(CANTAB.), and Dennis Thompson, M.A.(CANTAB.). xxii+487 pp. 10×6½. £3 10s net, U.K. only. Stevens & Sons, London.

MAXWELL ON INTERPRETATION OF STATUTES, eleventh

Maxwell on Interpretation of Statutes, eleventh edition, by Roy Wilson, Q.c., and Brian Galpin, M.A. cxxxii ×448 pp. 9×5½. £3 10s. Sweet & Maxwell Ltd, London.

FIDELITY GUARANTEE AND CONTINGENCY INSURANCE, by R. C. Howard and W. A. Dinsdale, Ph.D., B.COM., F.I.ARB. xii+297 pp. 8½×5½. 25s net. Stone & Cox Ltd, London.

These books may be obtained from, or through, Gee & Co (Publishers) Limited, The City Library, 151 Strand, London WC2.

A monthly feature designed to keep readers whether in practice or in commerce - abreast of the latest developments in the field of office equipment.

#### Microfilm Reader-printer

YUITABLE for use with 35 or 16 mm. roll microfilm, the Micro-Automat displays an image magnified ten times and can make a 10 by 7 in. print from any frame in less than half a minute. Nevertheless, as its base measures 32 by 26 in. and its height is 32 in., it can stand conveniently on an office desk or table.

The user places a reel of film on a spindle at the top of the instrument, where it unwinds automatically at a speed he controls by push-button. Alternatively, he may view the film frame by frame. A fine adjustment allows variation in focus and a small hood placed above and round the sides of the ground glass viewing screen prevents the entry of too much daylight.

If he wants a copy, the user presses another button. This activates an automatically operated Polyprint photocopier, which is situated to the right of the screen and is fed from a continuous roll from which it cuts a 10 by 7 in. sheet. Cost of the copy is less than 3d.

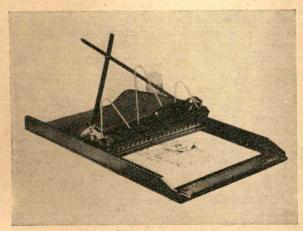
The Micro-Autotmat is finished in hammer grey. Basic price, including lamp and processor is £,520. To this must be added a further £65 for a lens and rectification prism for 16 mm. film; £75 for 35 mm. film. A table base is also available for £55.

E. N. Mason & Sons Ltd, Arclight Works, Colchester, Essex.

#### Laminating Machine . . .

EVEN in the cleanest office, frequently-used documents or those pinned to notice boards soon get grubby, faded, curled or torn. Their freshness can be preserved almost indefinitely by using a laminating machine - a device which applies to one or both sides of the paper a thin layer of tough, transparent plastic

The new Copysol laminator is very reasonably priced, since it uses the spirit process rather than heat to do its job. The sheet to be laminated is placed on the bed of the machine and plastic fed in. A solvent, stored and ejected from a fitted plastic bottle, combines with the adhesive on the under surface of the film, and



Copysol Laminating Machine

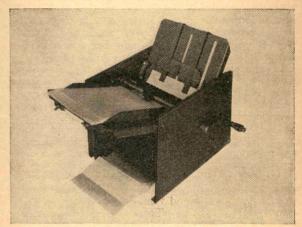
# New Offic

pressure applied by the machine welds the film to the

Price, with dust cover, £,23. With carrying case, £,27 10s.

#### ... and Folding Machine

Another new item from the same maker is an office folding machine. Hand operated, it offers a choice of



Copysol Folding Machine

twelve different types of fold or crease and takes sheets up to foolscap size.

The Copysol folder has an automatic paper feed which, the makers say, effectively prevents more than one sheet at a time from entering the mechanism but does not slow down operating speed. The latter depends chiefly, of course, upon the dexterity and energy of the operator.

Price, £21.

E. G. Solomon, 44 Worship Street, London EC2.

#### **Punched-card Storage**

EASIER transport of punched cards and their compact housing are accomplished in the new Accessadex series of storage units. These, which are available in desk-top, counter-high or tall cabinet sizes, hold from six to fifty-six trays, each of which has a 2,300-card capacity.

Three features make for easy tray handling. There is a hand-grip at either end; their design allows them to be stacked securely on top of one another without sliding; and an integral backstop prevents accidental withdrawal from the cabinet. Another novel feature is that contents are indexed with tabulating cards.

Left-to-right measurement of standing cabinets never exceeds 348 in., extra capacity being gained by adding height. On counter-high models there is a laminated plastic working surface. The slotted pillar construction of the cabinet prevents shelves sagging even when fully loaded and, as all parts are stove enamelled before

# quipment

assembly, rust-resistance is higher than usual, the makers say. The cabinets lock with a patent device.

Prices on application.

Punched Card Accessories Ltd, 58 Victoria Street, London SW1.

#### **Guide of Office Machines**

NE of the most difficult tasks confronting a purchaser of office equipment today is to decide exactly what make and model will best fit his purpose. A new data book due to appear this autumn should help considerably, since it will provide compact,

detailed specifications in classified form.

Business Equipment Buyers' Guide is to be published on a subscription basis, and instalments will appear three times a year. The first issue will cover type-writers, photocopiers, duplicators, dictating machines, adding machines and desk calculators. The second (January 1963) will revise the first and will add details on addressing, franking, book-keeping and telephone answering machines, filing and pocket paging systems, microfilm equipment and posture seating.

As every new issue appears, previous numbers will be revised, thus ensuring that the Guide is always up to

date - an important and valuable service.

Indexes will include office equipment makers and importers with addresses, telephone numbers, branches and names of branch managers; a town-by-town list of retailers; and current trade names. Size will be 10 in. by 6 in. and the first issue will have at least 120 pages.

Price: By subscription, three guineas per annum. Digest Data Books Ltd, 88-90 Chancery Lane,

London WC2.

#### Free Service with Photocopier

PURCHASERS of the new 40P office photocopier who also use the makers' paper are guaranteed free servicing six times a year. The service staff undertake to do chores like changing the developer and cleaning the machine as well as keeping it in good working order.

Suitable for documents up to  $15\frac{3}{4}$  in. wide and of any reasonable length, the machine exposes and develops. It will copy any matter, whether printed, typed, written or drawn on one or both sides of a sheet. Cost for a quarto copy is about 6d; other sizes pro rata.

Average copying time is eleven seconds. But to accommodate originals of different quality, exposure time can be varied by the operator. The light source is a 20-watt lamp.

The machine is 22 in. wide, 14 in. deep, 6 in. high

and weighs 45 lb. Price is about £130.

Remington Rand Ltd, Remington House, Holborn Viaduct, London EC1.

#### Self-inking Date Stamp

THE built-in ink pad of the Wixon date stamp holds sufficient for 60,000 impressions, the makers say. When exhausted, it can be replaced.

Ink colours are red, blue, green, black and voilet. The print area of the die which surrounds the date allows space for one line of quarter inch high type and containing nine characters/spaces to appear above the date, and a similar line below; alternatively, a smaller typeface allows two lines above, two below, each of twenty-six characters/spaces.

Price is 39s 6d, including purchase tax. Refill ink pads, 2s 6d each.

Wixon Supplies Co Ltd, 9-10 Finsbury Court, Finsbury Pavement, London EC2.

#### **Time-date Stamps**

A TIME-DATE stamp used on all incoming correspondence eliminates the haggling which sometimes occurs when a sender claims the recipient has delayed in answering his letter. For some businesses it is also useful in establishing priority on orders.

A range of time and date stamps made by American Simplex Time Recorder Co is now available through a British distributor. All the machines, which are electrically controlled, automatically print the basic details in a straight line. An extra word or two, such as a company name or 'received', can also be inserted, if required.

The numbering sequence may be consecutive, dupli-

cate or triplicate.

Prices from £50. General Signal & Time Systems Ltd, 73 Great Peter Street, London SW1.



Simplex Time-date Stamp

#### **Adding Machine Price Reductions**

MPROVED production methods is the reason given by Burroughs for reducing prices of add-listing machines in their f series. New prices range from £66 for the f.219 to £82 (£17 reduction) for the f.224.

All the machines are electrically driven and have

simplified keyboards.

Burroughs Machines Ltd, Avon House, 356 Oxford Street, London Wr.

# Notes and Notices

#### PROFESSIONAL NOTICES

MESSRS MAURICE SHERMAN & Co, Chartered Accountants, have removed to I Parkway, Camden High Street, Camden Town, London NWI. Telephone:

Gulliver 9548-9.

Messrs Russell, Fleming, Boys & Co announce, with very much regret, that Mr A. E. Russell retired from the partnership on July 31st, 1962. Mr Russell will, however, continue to be associated with the firm as a consultant, and his advice will be available when required. They also announce that Mr Richard S. Heaver, A.C.A., who has been with the firm for several years, has been taken into partnership, and the firm will in future practise under the style of Russell, Ohly & Co, Chartered Accountants.

Messrs Whinney, Smith & Whinney (incorporating Alfred Dobson & Co), Chartered Accountants, of Leeds, announce that their address is now Yorkshire

House, Greek Street, Leeds 1.

#### **Appointments**

Mr. R. A. J. Emery, c.A., F.C.I.S., Mr David Finnie, M.A., c.A., and Mr J. G. Hill, F.C.A., are members of the newly constituted board of directors of the City Fire Office Ltd.

Mr. P. W. Lewis, F.C.A., previously secretary and chief accountant of Whitworth Gloster Aircraft Ltd, joined Dennis Bros Ltd, of Guildford, on August 1st and has been appointed chief accountant.

Mr H. R. Ross, A.c.A., has been appointed a director of Dawe Instruments Ltd; he continues as secretary

of the company.

Mr John M. Stockland, F.C.A., has been appointed comptroller of the English Electric Group.

#### **OBITUARY**

#### Henry Mossop, F.C.A.

We have learned with regret of the death on August 10th at the age of 83 of Major Henry Mossop, F.C.A., former senior partner in the firm of R. F. Miller & Co, Chartered Accountants, of Barrow-in-Furness.

Educated at St Bees School, he served his articles in the firm's Manchester office and moved to Barrow in 1905, becoming a partner in 1910. As a Territorial Officer in the R.G.A. he was called up at the outbreak of the 1914-18 War, serving in France until being severely wounded in August 1918; he was mentioned in dispatches and was demobilized with the rank of Major. He took a keen interest in the British Legion and was 'Gunner's Friend' for the district.

Appointed to be a Justice of the Peace in 1928, he

later became chairman of the Bench and retired under the age limit at 75. He was the first president of the local Rotary Club.

#### LOCAL LOANS RATES

The Treasury have announced that as from August 18th, 1962, loans advanced to local authorities will carry the following rates of interest:

	1.0	CEILL
Loans for not more than five years	6	$(6\frac{3}{4})$
Loans for more than five years but not more		
than fifteen years	6₹	$(6\frac{3}{4})$
Loans for more than fifteen years but not		
more than thirty years	6 <del>§</del>	$(6\frac{3}{4})$
Loans for more than thirty years	6 <del>§</del>	$(6\frac{3}{4})$

The former rates of interest (shown in brackets) have been in force since April 7th, 1962. The new rates apply only to future loans; the rates of interest on existing loans are unaffected.

#### E.F.T.A. ANNUAL REPORT

The second annual report of the European Free Trade Association, now published, covers developments from July 1st, 1961, to June 30th, 1962. The report surveys the background to the negotiations now taking place between E.F.T.A. member States and the European Economic Community.

A survey of economic and trade developments shows that intra-E.F.T.A. trade measured in terms of exports in 1961 rose by 9.6 per cent, and that this was almost twice as much as the rise in total exports above the 1960 level. Total international trade of member countries amounts to more than one-seventh of world trade; on a per capita basis their trade exceeds that of the E.E.C. and that of the United States.

Progress in the development of the domestic economies of the E.F.T.A. countries was broadly in line with the general trend experienced in western Europe as a whole. The rate of expansion of total output was either constant, or declined moderately during 1961, but picked up again in the latter part of the period under review. Satisfaction is expressed at the progress made in establishing a free market among the Seven. At the end of October 1962 (in the case of two countries a few months later) tariffs within E.F.T.A. will be just one-half of what they were in July 1960, when the association began.

The report notes that the association with Finland has now worked satisfactorily for one year. Within that time, Finland has caught up with E.F.T.A. member States in the dismantling of barriers to trade.

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REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

#### HELICOPTER THE ANSWER

Mr Leslie Jones, B.COM., A.C.A., commercial manager of W. P. Butterfield Ltd, of Shipley, Yorks, spent his holiday this year learning to fly a helicopter.

This month, at Oxford airport, he became the sixth qualified Brantley B2 pilot in Britain and the first holder of a private pilot's licence to convert from fixed wing aircraft to the Brantley.

In the course of a year, Mr Jones travels an average of 30,000 miles between his engineering company's ten subsidiaries, and in present traffic conditions he is convinced that helicopter travel is the answer.

### LIVERPOOL SOCIETY OF CHARTERED ACCOUNTANTS

#### Intermediate Prize

The Committee of the Liverpool Society of Chartered Accountants announces that its Intermediate prize will be awarded to the candidate who, being a member of the Liverpool Chartered Accountant Students' Association or any one of its constituent branches, gains the highest place in the Institute's Intermediate examination held in May last. The prize will take the form of a book to be chosen by the President of the Society.

It is the responsibility of the student to apply for the prize. Applications should state the position gained in the examination and should be sent to the Hon. Secretary, the Liverpool Society of Chartered Accountants, B22 The Temple, Dale Street, Liverpool 2, within two calendar months after the announcement of the results of the examination.

### MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY

#### **Residential Course**

The Joint Tuition Committee of the Manchester Society of Chartered Accountants and the Manchester Chartered Accountants Students' Society has arranged to hold its fifth residential revision course for students at Lyme Hall, near Stockport, from September 17th—21st

The primary object of the course is to assist students in their pre-examination revision and for this reason priority will be given to candidates in the Institute's examinations to be held in November 1962. Priority will also be given to students who live too far away from Manchester and Preston to attend Saturday morning lectures. Subjects covered by the syllabus will be dealt with by a team of lecturers and a separate series of lectures will be given for Intermediate and Final candidates. In addition, there will be opportunities for discussion with the lecturers and a resident tutor will be available throughout the course.

The enrolment fee is £12 12s and covers all charges in respect of tuition, board and lodging: a further 5s will be charged to members who use the special bus which has been arranged for the journey from Manchester to Lyme Hall and return. Further particulars are obtainable from the honorary secretary, 46 Fountain Street, Manchester 2.

#### SEVENTY-FIVE YEARS AGO

FROM The Accountant of August 27th, 1887

A Weekly Note

With reference to the note in these columns last week, and to the reply made by the Chancellor of the Exchequer in the House of Commons to a question put by Mr Gilliatt, relating to the proposal to entrust the collection of the income tax to Inland Revenue Officials, there appears to exist amongst competent authorities in the city, not pecuniarily interested in the question, a difference of opinion as to the wisdom of the change which Mr Goschen hopes to effect. The most serious argument against the proposal appears to be that Inland Revenue Officials would not have that intimate local knowledge of facts and circumstances which the present collectors undoubtedly possess, and which is of such immense assistance in arriving at a true or reasonable estimate of the profits of traders. We are bound to say there is some weight in the contention, but we are almost inclined to think its importance is exaggerated. We firmly believe in the principle of getting at the true amount of profits, and we are not less of opinion, that if, by neglect to keep proper accounts, a man believes himself over assessed it is purely his own fault, and that the difficulties of public officials should not be increased by the neglect of taxpayers. It may also be allowable to believe, that if the present collectors were dispensed with, the Officials would not be without very good data upon which to base an estimate of the income of people who will not render accounts, or who render unverified and unreliable accounts. The real opposition to the change will, of course, really arise from a very different source. The collectorships are valuable posts, and the disposal of them is not to be lightly given up. On the whole we believe the plan which Mr Goschen intends to carry out if possible is beneficial, and will go far to relieve the feeling amongst traders, however ill-founded it may be, that the collectors in the performance of their duties have a greater regard to their own poundage than to equity and

MOTOR — FIRE — CONSEQUENTIAL LOSS

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# THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

Results of Examinations held in June 1962

#### **EXAMINATION IN MANAGEMENT ACCOUNTANCY**

#### PASSED (COMPLETING EXAMINATION)

Adeyemo, M. A., London Aiyar, V. P. A., Hayes, Middx Armstrong, G. R., Johannesburg \*Ashton, M., Johannesburg

Balakrishnan, S., Calcutta Balsam, B. J., Southampton Bickerton, G. W., London

Chadha, S. N., Delhi Coffin, T. A., Cyprus Collett, T., Boston, Lincs

Dance, F. R., Beaconsfield, Bucks Davies, E. O., Wallingford, Berks Day, G. B., Leighton Buzzard, Beds Doak, J. T. M., Kilmacolm, Renfrews Dole, G. R., Bombay Doyle, J. B., Denham, Bucks Duncan, A., Glasgow

Gorton, F., Blackburn Grusd, N., Cape Town †Hayden, P., Middleton, Co. Cork Hollin, B., Rotherham Hutcheson, D., Bogota, S. America

Ireland, N. C., Bath

Jhaveri, S. B., Bombay

Knight, J. S., Tunbridge Wells Kruse, H. K. P., Vanderbijlpark, South Africa

Lucev, T., Bilbrook, Staffs

Mackie, J. D., Doncaster Martin, G. J., Tehran, Iran

Norman, G., Kingston upon Thames

O'Neill, S., Walkinstown, Co. Dublin

Phin, P. A., Glasgow Pryke, D. A., Felixstowe, Suffolk

Radhakrishnan, C., Rourkela, India Rajan, T., Bombay Sen Gupta, A. K., Calcutta
Sen Gupta, K. P., Asansol, India
Seshagiri Rao, H. R., Bangalore, India
Simpson, L. G. L., Port Elizabeth
Smart, H. P., Swansea
Stevens, P. M., London
Stevenson, C. R., Theydon Bois, Essex
Subramaniam, A. R. G., Calcutta

Thomas, R. D., London Thompson, I. M., London Tomsett, A. J., Croydon Twist, A. N., Wigan

Venkatakrishnan, R., Madras

Wallace, J. E. C., Montreal
Wallace, J. M., Glasgow
Wheldale, L., Doncaster
Whytock, R. L., Edinburgh
Worsley, R. B., Pinelands, South Africa
Worthington, M. J., Sutton Coldfield
Wylie, R. M., Dundee

\* The Beyer Peacock Prize + The Lewton Coronation Prize

#### PASSED PART A ONLY

Rhodes, C. R. C., Barry, Glam.

#### PASSED PART B ONLY

Abraham, K. J., Petone, New Zealand Adamson, C. B., South Shields

Barrie, J. M., Purley, Surrey Bragg, J. P., London

Claret, J., London

Davies, J., Stockport Dewar, J. B., Johannesburg

Ellis, A. J., London

French, E. J. H., Sligo, Ireland

Jones, W. London

Mason, K. M., Keighley

1700

Turner, J. R., Retford, Notts

Wall, R. T., Walsall Way, D. H., Macclesfield

262 candidates sat. Of these 55 passed, completing; I passed Part A only; 14 passed Part B only; 192 failed.

### FINAL EXAMINATION

#### PARTS A and B

First Place (S. Laurence Gill Prize): Wickramasuriya, P. N., London

Barclay, I. T., Welwyn Burton, M. W., Reading

Chappel, M. H., Durban Cullen, Q. C., Barton Stacey, Hants

Finnie, J., London

Green, M. E., Falkirk Greig, L. W., Dundee Gumbrell, P. C. J., Horsham

Harding, P. A., London

Hardyman, A. S., Ipswich Hollock, E. J., Glasgow Kayode, P. O., Leicester

Lokko, B. C. F., Kumasi, Ghana

Miller, G. S., London Minkley, A. C., Port Elizabeth Mrithunjayan, B., Calcutta

Nadkarni, M. G., London Nissan, L. M., Bristol Randall, J. H., Johannesburg Robinson, C., Sheffield Rogers, A. J. S., Brighouse, Yorks

Schulman, P. D., London Smith, A. F., London

Thakkar, R., Bombay

van der Linden, J. T., Stevenage

Ward, T. A., Liverpool White, J. K., Bickley, Kent

147 candidates sat. Of these, 28 passed Parts A and B; 20 passed A only; and 29 passed B only (names included in lists under these headings); 70 candidates failed.

#### PART A (COMPLETING FINAL)

Adams, M. W., Thurso, Caithness Albosh, N., Taunton Anderson, V., Billingham, Co. Durham Andrews, J. B., Barnsley Angle, P., New Ferry, Cheshire Anthony, R. H., Birmingham Appleby, D., Middlesbrough

Ashley, E. G., Stretford, Manchester Athalye, A., Dundee Avery, L. J., Maidstone

Baden, D. K., Upminster, Essex Bain, F. P., Manchester Baldwin, J. N., Prescot Banerji, A., London Banyard, C. W., Fawley, Hants Bargh, F., Rossendale, Lancs Barnett, J. A., Southampton Barron, K., Bishop Auckland Barron, M. J., Waterford Basak, P. K., Kumardhubi, India

#### THE ACCOUNTANT

Baughen, T. W., Bourne End, Bucks
Beaumont, G. G., Slough
Beckingham, D. W., Manchester
Belton, M. A. (Miss), Dublin
Belton, T. G., Drogheda, Co. Louth
Bendrey, M. L., Bristol
Benzie, J. G., Wolverhampton
Berry, M. F., Preston
Bhandiwad, S. K., Shrirampur, India
Bhatia, C. B., Glasgow
Blumberg, M. S., Johannesburg
Bose, P. K., London
Bottoms, V., Chelmsford
Bound, D. F., Swindon
Bradbury, P. E., Walsall
Brazier, D. J., Wolverhampton
Brereton, R. W., St Helens, Lancs
Britten, R. J., Lianelly
Bromwich, M., Southend-on-Sea
Brooke, R. F., Bournemouth
Burde, S. B., Bombay
Burton, J., Otley, Yorks
Byrne, A. F., Leeds

Carey, A., Glasgow
Carter, L. A., Walsall
Caygill, J. E., Whitley Bay
Ceeley, A. E., Portsmouth
Chakravorty, S., Birmingham
Cheesley, K. J., Swindon
Chesworth, E., Preston
Chittock, M. J., Leicester
Clements, G. W. E., Aldershot
Coates, L. A., Nottingham Clements, G. W. E., Aldershot
Coates, L. A., Nottingham
Cobb, P., Peterborough
Cocking, J. O., Ellesmere Port, Cheshire
Connor, T. R., Sale
Cook, K. H., Buckhurst Hill, Essex
Corbett, J., Cheadle, Cheshire
Cornwell, J. F. B., Beaconsfield, Bucks
Cottom, A. G., Preston
Coull, J., Grangemouth
Critchley, K. E., Twickenham
Crockett, A. R., Barry, Glam
Crump, P. C., Birmingham
Cuff, R. A., London

de Moor, D. H., Walton-on-Thames Ditchburn, K. F., Coulsdon, Surrey Dixey, B. L., Gillingham, Kent Doughty, P., Warrington Dryburgh, W. A., Fochabers, Morayshire Dunlop, G. S., Larkhall, Lanarkshire

Eastup, R., Birmingham Elliot, J. D., Coatbridge Elliot, J. R., Hayes, Middx Ellis, A. H., Liverpool Evans, G. E., Sheffield Evans, K. M., Ronkswood, Worcs

Fazakerley, M. D., Timperley, Cheshire Fletcher, P. A., Morecambe, Lancs Fogg, D. M. V., Walsall Forster, W. F., Newcastle upon Tyne Foster, E. L., Wolverhampton Foster, T. I., Orpington, Kent Fox, A. J., Cardiff Freeman, J. E., Cheltenham Freeman, R. W., Derby French, L. W., Bexleyheath, Kent Froggatt, R. L., Birmingham

Ganguli, M. N., London
Ganguly, S., London
Ganter, P. P., Dublin
Gardiner, A. J., London
Gehani, N. G., Bombay
Ghosh, B. K., London
Gibbons, N. M., Bury , Lancs
Gillespie, T. S., Ballymend, Co. Antrim
Glass, J. A., Glasgow
Godfrey, P. G., West Wickham, Kent
Goodwin, K. A., Bestwood, Notts
Goodwin, W. S., Malahide, Co. Dublin
Gorf, K. A., Gillingham, Kent
Gorman, J., Stillorgan, Co. Dublin
Graham, L. F., Blantyre, Nyasaland
Green, D. W., Cadnam, Hants
Green, N. D., Cookham, Berks
Greener, A. A., Grays, Essex
Griffin, T. C., Walsall
Grocock, H., Morpeth, Northumb
Gwinnell, R. F., Beading

Hamlin, R. E., Reading
Hardman, J., Manchester
Harrison, G. L., Scunthorpe, Lincs
Hart, G. T., Burbage, Leics.
Hawley, M. J., Solihull
Hayes, A. G., Beeston, Notts
Hayes, R. A., Dublin
Hayward, D. R., Redditch
Heath, J. E., Coventry
Hicks, W. H., Ipswich
Hill, R. D. J., Godalming, Surrey
Hodges, M. B., Birmingham
Holloway, R. W., Cookham, Berks
Hopkin, G. G., Swansea
Hopkins, R. D., Kenilworth, Warwicks
Hucknall, R. E., Carlton, Notts
Hughes, T. C., Swindon
Humble, T. F., Southall, Middx

Irvine, W. A., Warrington

Jarvis, W. J., Walsall Jenkin, M., Almondsbury, Glos Johns, B. Newcastle upon Tyne Jones, A. W., London Jordan, A. S., Dublin Jordan, R., Derby

Keighley, B. W., Bolton
Kelly, C. J., Wrexham
Kemp, D., Bradford
Kennedy, B. L., Ilford, Essex
Kenning, M. H. L., Aldershot
Kenworthy, D., Esh Winning, Co. Durham
Khan, A. G., Rawalpindi, Pakistan
Khan, M. M. A., London
Kimmings, R. C., Bristol
King, J., Dundee
Knight, D. C., Cardiff

Ladbrooke, J., Wisbech, Cambs Leveritt, I. R., Wilmslow, Cheshire Lew, J. M., London Lewis, J. V., Gorseinom, Glam Lipscombe, S. A., Barnsley Lomas, D., Ashton under Lyne Long, R., Dublin Lord, T. J., Ashton-under-Lyne Lynch, J. N., London Lyons, P. J., Maidstone

McCabe, R., Lisburn, Co. Antrim Mallinson, W., Elland, Yorks. Mann, A. D., Sutton Coldfield Marchant, J. S., Birmingham Marsh, P. M. (Miss), London Massey, R. S., Kidderminster Mawhinney, J. H., Dundee Meguyer, R. A., Letchworth, Herts Miller, P. J., Cheam, Surrey Minhas, G. H., London Mirchandani, V. H., London Mirchandani, V. H., London Misra, R. N., Cuttack, India Monaghan, N. E., Skerries, Co. Dublin Monaghan, P. E., Bracknell, Berks Moran, D. J., Sligo, Ireland Morgan, C. R. C., High Wycombe, Bucks Morris, S. G., London Morrison, J. S., Glasgow Moyle, J. C., Kidderminster Mundy, A. D., East Grinstead Murphy, D., Altrincham, Cheshire Mutock, E. G., St Albans

Nanda, M. M., London Newton, N. C., Darlaston, Staffs Nicholls, K., Maidstone

O'Farrell, W. D., Templeogue, Co. Dublin Olohan, J. C., Warrington Openshaw, A. H., Limbe, Nyasaland O'Reilly, J. K., Limerick, Ireland

Palmer, A. R., Barrow-in-Furness Panther, T. C., London Papworth, G. S., Hitchin, Herts Parker, H., Oldham Parkin, G. B., Chesterfield Parry, G., Cheadlehulme, Cheshire Phillips, G., Scarborough Pirrie, J. B., Greenock Pogson, W., Bradford Pollock, A., Glasgow Popplewell, J., Bolton Potton, J. G., Bracknell, Berks Pratt, N. H., Leamington Spa Price, D. W., Woking, Surrey Pugsley, R. C., Bridgwater

Quinn, B., Manchester

Rankin, D., Port Glasgow
Rasul, G., Wah, Pakistan
Read, R. G., Edinburgh
Redfern, J. R., Romiley, Cheshire
Reed, H. L., Newbury
Richards, W. H., Swindon
Richardson, D., Highbridge, Somerset
Rimell, P. W., Birmingham
Robbins, K. E., Orpington, Kent
Robinson, F. E., Leicester
Robinson, F. W., Chadwell Heath, Essex
Rogers, K. W., Rushden, Northants
Rooke, H. L., Birmingham
Russell, I. C., Sheffield
Rylance, R., Atherton, Lancs

Sayers, K. L. P., Eastbourne Shackley, D. R., Solihull Sharp, J. B., Stockton-on-Tees Shaw, A. J., Stockport Shaw, F., Bingley, Yorks

#### ROYAL **EXCHANGE**

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Smart, H. D., Thatcham, Berks
Smith, A., Southampton
Smith, F. G., Sheffield
Smith, M. T., Birkenhead
Smith, P. D., Reading
Smith, P. E., Walsall
Stevenson, J. A., Baldock, Herts
Stocker, P. D., Reading
Swan, T. W., Gateshead
Sweeney, J. J., Bray, Co. Wicklow

Taylor, A., Romiley, Cheshire

Taylor, S. I., Leeds
Thornton, J., Grimsby
Thwaites, J., Leeds
Tindale, R., Cleethorpes
Tipple, D. M., Halifax
Tranter, E. P., Bangor, Co. Down
Trotter, J. L., London
Trunkfield, J. K., Uttoxeter, Staffs

Underdown, B., Scunthorpe

Veasey, J. R., Sheffield Vedantam, A. S., Calcutta Venkataram, R., Bangalore, India Vickerman, W. D., Huddersfield Vickery, J. B., Bristol

Walmsley, J. G., London

Walton, B. J., Willenhall, Staffs
Walton, E. G., Stockton-on-Tees
Wassell, L., Stockport
Watson, D. R. J., Edgware, Middx
Watson, R. M., Birmingham
West, D., Todmorden, Lancs
West, J. D., Swindon
Weston, R. W., Aldershot
Whalley, F. W., St Helens, Lancs
White, M. B. T., Southampton
Widdowson, G. W., Stapleford, Notts
Wilkinson, D. M., Colne, Lancs.
Winder, D. L., Chandlers Ford, Hants
Wood, H. A., Durham
Wood, T. A., Harrow
Woodrow, G. W., Orpington, Kent
Woods, P. E., Ipswich
Worrall, D. E., Grays, Essex
lidates failed.

767 candidates sat. Of these, 271 candidates passed; 496 candidates failed.

#### PART B (COMPLETING FINAL)

Ahmed, Z. U., London Alletson, S. D'A. K., Durban Ansari, K. U., London

Beaumont, C. M., Hessle, Yorks Bennett, N. F., Urmston, Manchester Borthwick, D., Gateshead

Charles, K., Newport, Mon Clayton, M. J., Maidstone Collins, J. R., Salisbury, S. Rhodesia

Donnelly, E. V., Birkenhead

Fawcett, R. R., Gillingham, Kent Field, E. P., Salisbury, S. Rhodesia Fraser, J. M., Bulawayo, S. Rhodesia

Goudie, T. K., Johannesburg Gould, W., Stockport Gray, P. L. M., Rochester, Kent Haffern, F. B., Belfast
Hargreaves, A. P., Boston Spa, Yorks
Harvey, P. G., Pontypool, Mon
Heath, A. H., Rainham, Kent
Hurd, C. N., Johannesburg
Knott, R. A., Bury, Lancs
Langston, N. A., Johannesburg
Leatherland, H., Loughton, Essex
Lenaghan, H. J., Johannesburg
Linder, D. A., Newport Pagnell, Bucks
Lumb, R. W., King's Lynn, Norfolk

McLachlan, J., Glasgow
Mafe, O. M., London
Marks, S. M., Johannesburg
Martin, J. W., Luton
Moore, D. J. C., Malahide, Co. Dublin
Moore, W. E., Shoreham-by-Sea

O'Gorman, W. V., Gravesend

Ogunleye, M. I., London Patwardhan, D. K., London Penman, W., Falkirk Pocock, B. J., Bristol

Read, M. R., Timperley, Cheshire

Scott, D. W., York Shadwell, E. C., Bridgend, Glam

Thomas, R., Bushey, Herts. Thompson, H. G., Johannesburg Tobiansky, A., Johannesburg

Viswanathan, P. H., Delhi

Walker, N. H., Cheadle, Cheshire Wellington, J. E., London Wolhuter, P. P., Port Elizabeth Wood, L., Horley, Surrey Wood, S. J., Macclesfield

III candidates sat, Of these, 50 candidates passed; 61 candidates failed.

#### **Summary of Results**

Grade	Passed	Passed	Passed	Passed	Passed	FAILED	Number of
	Completing Examination	Intermediate Part I only	Part A only	Part B only	TOTAL		CANDI- DATES
Management Accountancy	55		I	14	70	192	262
FINAL Parts A and B	28		20	29	77	70	147
Part A (Completing Final)	271		-		271	496	767
Part B (Completing Final)	50				50	6 r	III
Part A (only)	,		53		53	109	162
Part B (only)				314	314	526	840
TOTAL	349		73	343	7.65	1,262	2,027
INTERMEDIATE Parts I and II	146	145			291	248	.539
Part I		720			720	1,549	2,269
Part II	526				526	1,023	1,549
TOTAL	672	865			1,537	2,820	4,357
PRELIMINARY	35				35	201	236
GRAND TOTALS	1,111	865	74	357	2,407	4,475	6,882

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# Theory or Practice?

HE consequences of present day economics, like charity, begin at home. When Professor BAXTER's anthology of accounting studies first appeared in 1950 it ran to 450 pages and cost 23s 6d. The second edition, just issued, has 630 pages and costs 63s. Allowing for the expanded text, the price of the book has therefore doubled. This means that the reader who over the last twelve years has set aside two shillings per annum to buy the new edition will have to fork out a substantial extra sum mitigated marginally by the residual value of his first edition. At least he cannot say that he was not warned; the original edition contained a cluster of excellent articles on post-war price levels, and two of these are still of sufficient moment to justify their retention in the revised selection. Both are thoroughly realistic in their advocacy of the necessity for making fully adequate provisions for plant replacement and of the ways and means of doing so.

Professor Sidney Davidson, of the University of Chicago, has now become joint editor with Professor Baxter and although the contents come equally from British and American sources, this was evidently not a planned editorial compromise. Two traits are apparent – one, that the level of literary expression on both sides of the Atlantic is of comparable merit and, secondly, that accounting thought in the two countries seems to be developing along similar lines. In additon to contributions which have previously appeared elsewhere, the collection includes seven specially commissioned essays, two of them concerned with the relationship between accounting and economics. By this process of blending, the editors have ensured that a fully rounded picture of current topics and problems is presented.

In what respect do these topics and problems differ from those which were considered to be of importance in 1950? It is a compliment to Professor Baxter that all the subjects he selected in 1950 (with the exception of nationalized industries which, presumably, is of no interest to Americans) have been retained although some of the individual contributions have been replaced by others more in touch with the times. The main change of emphasis to be noted is that relatively less space is devoted to purely historical aspects of accounting and much more to considerations of improvements in techniques, to accounting as an instrument of managerial control and to the increased responsibilities which the accountant is being called upon to assume in our modern society. This, despite its rather academic title, is a very pertinent and practical book.

<sup>&</sup>lt;sup>1</sup> Studies in Accounting Theory. Sweet & Maxwell Ltd, London, 63s net.

# Short-term Gains - VIII

#### TRANSACTIONS NOT AT ARM'S LENGTH

HIS week we move from out and out gifts to transactions 'otherwise than by way of bargain at arm's length' but not by way of gift. Paragraph 5 (1) of the Ninth Schedule of the Finance Act 1962 provides for an option in such cases to elect for the higher of

(a) the actual consideration; and

(b) such amount as will secure that neither a gain nor a loss accrues to the person disposing of the asset.

The election is not to increase the consideration for which the two parties are treated as disposing of and acquiring the asset. It will be recalled that this consideration is the market value (section 12 (3)) which is thus the overriding maximum, whether (a) or (b) applies, unless the case is within section 12 (4). This applies where the asset is an income receipt in the hands of the disponee (see the sixth article in this series<sup>1</sup>).

Prerequisites of the paragraph 5 (1) option are:

- (i) disponor and disponee both resident and ordinarily resident in the United Kingdom;
- (ii) disposition not by way of bargain at arm's length nor by way of gift;
- (iii) in such circumstances that there is an 'acquisition and disposal' by the disponor.

Section 10 (2) provides that where the statutory time limits of six months or three years are exceeded, there is no 'acquisition and disposal', except in section 14 cases.

Normally the election must be a joint one, but the disponor may exercise the election alone if the disponee would not be chargeable to Case VII tax on his own disposition of the asset (paragraph 5 (2)). An example of such a person would be a charity. Two kinds of disposal are excluded from paragraph 5:

- (i) disposal by a company by way of distribution in respect of shares in the company ('company' includes any body corporate, and 'shares' include stock – section 16 (1)); or
- (ii) the disponor (but not the disponee) is within section 14 in relation to his acquisition and disposal of the asset. Section 14 will be dealt with in a subsequent article.

It will be recalled that section 12 (3) (b) provides for the market value to be taken where

the disponee acquires the asset in any of the four separate sets of circumstances which we set out in the sixth article in this series. Assuming that the transaction is not by way of bargain at arm's length, any one of those four cases might fall within paragraph 5 (1). If it does, then one has to assume that the actual consideration is less than the amount which would secure that there was neither a Case VII profit nor a Case VII loss to the disponor; i.e. that (a) of paragraph 5 (1) is less than (b). Accordingly, provided that the market value has been taken under section 12 (3), and provided that it is more than the amount specified in paragraph 5 (1) (b), the latter amount is to be taken, whatever view might be taken of the value of the actual consideration (paragraph 5 (3)). If the acquisition and disposal falls within section 12 (4), i.e. the asset constitutes an income receipt, then instead of market value one must take, if different, the value attributed to the asset as an income receipt.

Legislation of this kind would not be complete without provisions aimed expressly at intra-group transactions. Paragraph 6 (2) of the Ninth Schedule provides, broadly speaking, that they shall be ignored. It applies the usual profits tax provisions, in section 42 of the Finance Act, 1938, for the purpose of defining what we here call a 'group'. These are complicated but are now well understood and can be approximately summed up as providing that a holding of three-quarters of the equity of a company makes that company the subsidiary of the holding company. Paragraph 6 (2) applies subject to the following conditions:

- (i) disponor and disponee both resident and ordinarily resident in the United Kingdom;
- (ii) both members of the same group at the time of disposal.

These conditions being satisfied, then

- (a) the disponor is not to be chargeable under Case VII; and
- (b) the disponee is to be treated as if the disponor's acquisition had been its own.

This, of course, imports the provisions of para-

<sup>&</sup>lt;sup>1</sup> The Accountant, August 18th, 1962.

graph 18, which have already been examined.<sup>1</sup> It also means that an asset can be passed round from one member of the group to another without interrupting the run of the statutory time limit of six months, or three years as the case may be.

Delicate questions of whether a husband and wife living together are at arm's length are burked by paragraph 6 (1) which in effect provides that they are to be treated in the same way as fellow members of a group of companies. There is no requirement as to residence or ordinary residence.

We come now (in paragraph 6 (3)) to the hybrid case of a person having control of a company in such circumstances that the two persons are not members of a group which brings in paragraph 6 (2), examined above. The person controlling may, of course, be an individual. 'Control' has the meaning assigned to it by section 333 (1) of the Income Tax Act, 1952, i.e. broadly speaking voting or other power given by the articles of association ensuring that the affairs of the company are conducted in accordance with the controller's wishes (section 16 (1)). However, for the purposes of paragraph 6 (3) the meaning of 'control' is widened. An individual is treated as having control of a company if his spouse has control, or if the individual and his spouse (not necessarily cohabiting) together control it.

Dispositions between controller and controlled are of course subject to the Case VII legislation, including the provisions of section 12 (3) and paragraph 5 as to transactions which are not at arm's length. Paragraph 6 (3) adds a further provision, which greatly restricts the opportunities open to controller and controlled of manufacturing Case VII losses for the purpose of setting them off against other Case VII profits. Such losses are available for set-off only against Case VII gains arising from dispositions between the same two persons (and in the same direction) while the control still exists.

The House of Lords decision in Sharkey v. Wernher (34 A.T.C. 263) emphasized that a person may affect his income tax position by appropriating an asset from one use to another. Such an appropriation is clearly not an acquisition or disposal at all, although it is equally clearly not at arm's length. Under paragraph 7 (1), an appropriation may be treated as though it were a disposal at market value. The sub-paragraph applies where

- (i) a person has acquired an asset;
- (ii) otherwise than as trading stock of a trade carried on by him; and
- (iii) appropriates the asset for the purposes of 'the trade';
- . (iv) as trading stock; and
  - (v) if he had then sold the asset at market value a Case VII gain or loss would have resulted.

'Trade' has the same meaning as in the Income Tax Act, 1952, i.e. it includes a trade, manufacture, adventure, or concern in the nature of trade, but not a profession. Although that Act of 1952 defines 'trading stock', it does so only for the purposes of section 143. The definition has been extended to Part II of the Finance Act, 1960, but the draftsman of the 1962 Act has apparently forgotten to apply it.

A person carrying on a trade which is assessed under Case I of Schedule D can in a sense opt out of paragraph 7 (1). He can elect instead that the market value of the asset at the time of the appropriation to the trading stock be treated as reduced, for Case I purposes, by the amount of the notional Case VII gain, or reduced by the notional Case VII loss, as the case may be. The Case I computation will thus absorb within itself the Case VII position. A partner in the trade cannot elect without the concurrence of all the other partners (paragraph 7 (3)).

Paragraph 7 (2) deals with the converse case, i.e. the Sharkey v. Wernher case. If a trader appropriates trading stock for some other purpose, or discontinues the trade, he is to be treated for Case VII purposes as having acquired the asset for a consideration equal to the amount brought in to credit of his trading account for tax purposes.

It will be recalled that in Sharkey v. Wernher the taxpayer carried on two activities, one a stud farm which was admitted to be chargeable under Case I as a trade, the other being entering horses in races, which was not a taxable activity. She transferred a horse from the stud farm to her racing stables. The taxpayer conceded, perhaps unnecessarily, that something had to be credited to the stud farm accounts for the horse taken out, since the cost of its breeding and rearing had been charged. She argued that the proper amount to credit was cost, but in the face of her concession the House of Lords held that the proper amount was the market value. That market value is not the universal answer is perhaps implied by paragraph 7 which contemplates some other valuation.

<sup>1</sup> See The Accountant, July 28th, 1962.

# The Role of Finance in the Developing Hospital Service

by CHARLES MONTACUTE, LL.B., D.P.A., F.I.M.T.A., F.H.A.

THE hospital service has entered a new phase – the third since nationalization in 1948. The first was a pause to shake down and recover breath after a hurried and somewhat ill-prepared 'take-over'; the second was a period of quite solid improvement and advancement, albeit on a 'make do and mend' basis because of the serious shortage of capital moneys; the new phase represents a break-through to more fundamental thinking and planning about the nature and size of the service likely to be required in the foreseeable future and the best and most efficient ways of providing and maintaining it. And at long last there is promise of fulfilment, for capital expenditure of  $f_{200}$  million in the quinquennium 1961-62 to 1965-66, and  $f_{300}$  million in the following quinquennium (1966-67 to 1970-71) is envisaged for England and Wales. This compares with about £157 million spent on hospital building since 1948-49.

The Minister of Health's plan was presented to Parliament as a White Paper<sup>1</sup> in January 1962. In the preface to the Paper it is stated:

"The moment has...come to take a comprehensive view of the hospital service as it is today and to draw the outlines of the service which we mean to create. This is a plan not merely for building, remodelling or improving large numbers of hospitals, but for modernizing the whole pattern and content of the hospital service and for integrating it still more closely with the great services which provide care and treatment outside the hospitals."

The core of the plan is the provision of district general hospitals providing comprehensive treatment and diagnostic facilities for populations of 100,000–150,000, though a few specialties, such as neurosurgery and plastic surgery, would need a larger catchment area and would be provided only at certain hospitals.

The scale of the programme may be indicated

by the fact that it specifies nanety new, and 134 substantially remodelled, hospitals to be started by 1970-71, apart from 356 other schemes costing over £100,000 each which make major additions and improvements to existing hospitals.

What is the role of finance in this new and in some ways exciting phase?

#### The Building Programme

First, let us consider briefly its function in the building programme. Here the hospital service has been influenced by the success of the special costing techniques developed in connection with the post-war school building programme. With schools, a planned attack on the design and structure of buildings was linked to an effective method of costing, in order to produce minimum standards of space and physical conditions which were laid down and published in building regulations, and also maximum limits of cost. Cost analysis in the nature of a post-mortem was used to examine the cost of schools already planned or built for which bills of quantities or tenders were available. The information thus gained was used by cost planning to maintain a surer control over costs of future projects. It has been calculated that the use of these techniques saved £290 million on the provision of school places between 1949 and 1958, and it is generally accepted that, alongside this economy, the schools that have been built are better than the more expensive ones that were being built in 1949.

The Ministry of Health has issued to hospital authorities a series of building bulletins and notes which have been prepared from similar studies, and a series of equipment notes will shortly be issued to parallel the building notes. These, together with a certain amount of standardization of design of building and of components and equipment, hold the promise of success equal to that obtained in the educational field.

<sup>1</sup> A Hospital Plan for England and Wales (Cmnd. 1604.)

Also coupled with this cost control of new buildings, are research studies (by the building research station), to predict the cost implications of building designs, not only as regards initial costs, but also 'costs in use'. Design obviously affects not only initial costs, but also maintenance and cleaning, and often heating, lighting, rating and personnel costs. What appears to be a cheaper building may in the long run be more expensive than one with far higher initial costs.

#### Revenue Expenditure

It is not only the new building programme which is claiming the attention of the financial side of the service. Economy and efficiency will have to be achieved in the running of the new and remodelled hospitals. Also, however fast the building programme proceeds, the bulk of revenue expenditure in the service will, for some time to come, be in existing hospitals.

Among the instruments used in the quest for efficiency and economy in management is costing. Indeed, one of the significant financial happenings in the service since nationalization was the introduction, in 1957, of departmental costing - the 'main scheme' for a gradually increasing number of the larger acute hospitals, and the 'modified scheme' for the remaining hospitals. The impact, in spite of teething troubles and other more serious problems, has been considerable - not so much in the actual savings which can be shown to have resulted, but in improved cost consciousness among members and staffs of hospital authorities. The production of tolerably accurate unit costs has focused attention upon the great differences in cost which exist between hospitals giving apparently the same service. And, inevitably, attempts have been made to discover whether they arise from differences in (a) the standard of service, (b) efficiency of organization or (c) local physical conditions; also, to what extent the level of budgetary provision has allowed them to continue.

Any adjustment to remove or diminish existing disparities can, however, involve facing up to some fundamental questions:

- (a) What constitutes a reasonable level of service?
- (b) What allowances should be made for local factors which affect costs in a particular hospital or department?
- (c) Should there be some form of quality appraisal?
- (d) Are adjustments to be enforced, if necessary,

through the budget allocation, and will adjustment be upward as well as downward?

Although costing has 'exposed' disparities, it has itself been shown to be, in its present form, a rather blunt and inadequate instrument.

#### **Need to Develop Cost Targets**

The history of costing in industry shows that historical costs - such as those now produced in the hospital service – suffered from the drawback of having been prepared after the event. What was necessary was to set up, in advance of events, a carefully calculated estimate of what a wellproduced article or a particular service ought to cost under normal conditions. I consider that, in spite of the peculiar difficulties in a humanitarian service of doing so, we should now take the logical step forward of trying to find out what the various parts of the service ought to cost and to measure performance against these standards. If this proves impracticable in, for example, some of the treatment departments, that should not deter us, for only partial success would provide us with better aids to efficient management than we now have, and, perhaps, with a budgetary aid as well.

The Ministry of Health have, in fact, recently made a moderate start on this task. It will be lengthy and difficult, for it is essential that any standards or targets should only be arrived at after the most thorough study. The procedure should include the detailed examination of properly selected sample departments of existing hospitals, so that the results will mirror actual, rather than theoretical, working. And more than cost studies will be involved; operational research must be brought into play as well.

#### **Adjustment for Local Conditions**

The targets or standards thus arrived at would, of course, be national ones. But to be of use in individual hospitals these must be capable of being translated into local language by adjusting them for local factors (such as type of building and equipment, standard of service, etc.) which lead to differences in cost.

Up to the present, these local factors have been a real stumbling-block in inter-hospital or inter-departmental cost comparison and any use of standards or targets, whether for efficiency or budgetary purposes, must take them into account. The problem is that their number is probably legion; but it may well be found that only a relatively small, manageable number have a

<sup>&</sup>lt;sup>1</sup> Report of the Working Party on Hospital Costing (1955) (see The Accountant of August 6th, 1955).

significant effect on cost, and an attempt should be made to arrive at a coefficient for each of these to represent its effect on cost. Thus, for each department or activity, the aim would be to arrive at a national target cost and then adjust it locally according to the presence or absence of factors which significantly affect cost.

For comparative purposes, the Ministry at present publish about six months after the year end, annual cost returns showing detailed costs for individual hospitals, together with regional and national average costs. Under the above proposals this publication could be dispensed with, for a hospital would be aware of its target, and its actual costs would be measured against it.

It must be admitted that all this may seem to be rather idealistic and impracticable. But I believe that the present crude, historical costs are so limited in their usefulness that the challenge of sharpening the instrument must be accepted. If the result of the exercise is negative in the sense that no clear-cut factors and coefficients emerge. it will demonstrate that inter-hospital comparison can only be a rough-and-ready concept and that the use of standards for efficiency or budgetary purposes in existing hospitals and departments, which differ so greatly in character, is scarcely justified. However, new hospitals and departments should be a more fruitful field, for in these there will be more standardization of design and technique.

Of course, it is always possible to abandon any idea of nationally fixed standards and rely solely upon local ones, fixed as a result of local studies. But the difficulty here is (a) the extreme shortage of staff – e.g. work study personnel – to carry out the studies, (b) the enormous length of time that individual detailed studies would take, and (c) the varying standards that would inevitably be reached. On balance, it seems preferable to concentrate first on independent, well-conducted surveys at the centre, for these, as well as producing standards and variance coefficients, could also provide information and advice which could be passed on to hospital authorities to help them to achieve the standards in their own hospitals.

#### **Quality Appraisal**

To set any form of monetary standard means that the quality of the service provided must come under review. Cost and quality are complementary. It therefore seems certain that in the developing hospital service, quality appraisal will become increasingly important. This is a field where comparatively little has been done in Britain, particularly on the clinical side.

In the United States attempts to do this include:

- (a) Accreditation of hospitals by a joint commission representing the colleges of surgeons and physicians and the hospital and medical associations.
- (b) Medical audit external or internal, but usually internal – representing a continuous review by a medical committee of the treatment given in a particular hospital.
- (c) The recording and processing by punched-card or electronic methods of clinical data relating to every case treated in a group of hospitals in order to throw up comparisons and relationships which would otherwise not be observable.

In Great Britain, the fact that the hospital service is highly integrated means that some of this ground is already being covered, but there is much room for development, particularly along the lines of the survey of casualty services carried out by the Nuffield Provincial Hospitals Trust<sup>1</sup> and the processing of clinical data.

In the non-clinical field, work already done on catering, domestic and laundry services, boiler houses, etc., will need to be expanded. These non-treatment services lend themselves more readily to objective assessment than clinical services.

#### **Budgetary Aspects**

Although there was statutory provision from the outset for hospital authorities to prepare and submit (usually via regional boards) to the Ministry of Health estimates of their expenditure, this procedure was really turned into an allocating procedure in which the previous year's expenditure played an important part. Accordingly, what an authority received could differ considerably from its estimates. Although this has provided rough justice for hospital authorities, certain changes are being planned.

The first of these has in fact just been partially introduced. This is the preparation of 'forward look' estimates for five years ahead. They are a natural corollary to a planned capital programme and will force the service to think ahead more than it has accustomed itself to do. This is undoubtedly a good thing, particularly if it enables the Treasury and the Ministry, knowing well in advance what is the realistic sum necessary

<sup>&</sup>lt;sup>1</sup>Casualty Services and their Setting (Oxford University Press).

for the proper functioning of the service, to make that sum – or something very close to it – available. It could restore meaning to the estimating procedure.

The second proposed change involves the working out of a closer relationship between costs and budgets. There can be two broad approaches to the problem:

- (a) the building up of hospital budgets as far as possible on the basis of accepted standard costs (as these become available);
- (b) the gradual reduction of existing disparities in cost between hospitals as the result of cost investigations etc., resulting in a more uniform level of expenditure.

The ultimate goal of both methods is, of course, similar, i.e. to achieve efficiency and to distribute as equitably as possible among hospitals the total funds available for the running of the service. (This, incidentally, is also the aim of the new capital programme: to distribute resources in the form of buildings and equipment fairly and according to need.)

It is difficult to quarrel with these proposals for they have considerable potential advantages; but they also have dangers which, unheeded, can do real harm. The indiscriminate use of standard costs can produce not efficiency and equity, but inflexibility and lack of initiative. And whilst, no doubt, there may ultimately be a place for coercion where goodwill and co-operation are absent, the emphasis must rather be on education and persuasion. Also, incentives must be built into the system. Above all, perhaps, it should never be forgotten that a good hospital can never be reduced to costs and statistics.

#### **Determination of Policy**

In a humanitarian service like the hospital service, policy should never be decided on financial considerations alone. But equally, these considerations should never be ignored.

Cost control and the 'costs in use' concept in designing and building new hospitals are examples where finance is already helping to determine policy. There is, however, considerable scope for this application of finance. Thus, where alternative methods of doing a thing exist, comparative cost should clearly figure in the choice. The use of destructible equipment; the justification for day hospitals; direct labour versus outside contractor; the optimum use of beds and other facilities, are a few examples.

In a dynamic service it is essential for finance

to make its full contribution to policy determina-

#### **Financial Tools**

In a service which is barely fourteen years old, it is natural that the tools of financial administration are still being added to and developed. The costing system needs to be refined, the possibility of an integrated budgeting-accounting-costing procedure looked into, the relationship between financial and other instruments of efficiency and control more clearly understood, and so on.

Most hospital authorities use keyboard accounting machines and/or have the use of punched-card and simple electronic equipment (such as calculators) installed at regional hospital board headquarters. Meanwhile, a Ministry of Health working party is considering the application of electronics to hospital accounting; experiments are being conducted under the aegis of this working party, and one or two computers are already installed at regional board headquarters. Second generation machines of greater flexibility now becoming available may well strengthen the case for medium-sized computers, although the indications are that tangible savings in staff and money are not likely to be great. The case will rather rest on intangible factors - better and quicker flow of information, inability to recruit clerical staff, etc. One might add that there is almost certainly much scope for computers in the field of medical statistics and research.

#### The Climate of Opinion

Perhaps the most difficult task facing the financial side of the service is to 'put over' to medical, nursing, technical and other staff, the essentially constructive nature of finance. At present they tend to view it as a negative art, practised with the main object of keeping progressive and enlightened people (like themselves) in check. The finance officer is an 'abominable no-man'.

It is difficult to convince them that by helping to secure the most efficient use of resources, finance can in an indirect though real way, play its part in improving the service the patient receives. Where attempts to explain and seek co-operation have been made, they have not been unsuccessful; but a great deal more than has been attempted or planned needs to be done.

It will be obvious that the role which finance needs to play in the developing hospital service, which in 1961-62 cost around £450 million, is a major, positive and progressive one.

1 11 1

## Insurance and the Accountant-I

by DAVID WILLIAMSON, F.C.A., F.C.W.A.

#### I. INTRODUCTION

THE biggest difficulty attendant upon compiling this paper has been the vastness of the subject. To treat in one paper the whole subject of insurance would not only be quite beyond my powers, but would mean presenting for your attention only the most superficial description of the subject. I feel that this conference requires a more detailed treatment of certain particular aspects of insurance—those that most closely concern the accountant and demand his attention. For this purpose 'accountant' mainly refers to the accountant in industry—but the matters discussed will be of interest to practising accountants as well, particularly in their role of advisers to industrial clients.

2. I have therefore selected certain aspects of industrial insurance - and have described some of the points that need thinking about before the policy is finally drawn up - also some of the day-to-day matters that the accountant will need to consider after the insurance has come into operation. And in case it be thought that this paper advocates excessive expenditure upon insurance, let it be said that wise insurance can prove a great economy; but above all it must be emphasized that insurance must not be regarded as standing aloof from other forms of industrial expenditure - it should form part of the pattern of expense designed to safeguard the industrial enterprise; insurance minimizes the risk in terms of financial loss, but other skills such as accident prevention and fire prevention also seek to protect the enterprise, by preventing the occurrence altogether.

#### II. THE ACCOUNTANT'S RESPONSIBILITY

3. The proper insurance of his company will always be a particular concern of the industrial accountant; we can recognize, of course, that in some companies insurance is regarded as within the domain of the secretary and not specifically of the accountant – also that in the largest concerns insurance may be the responsibility of a specialist who may be neither the secretary nor accountant – but in all these cases nevertheless the company's accountant will have a close interest in the operation of insurance regarding his company's assets.

4. The famous 'watchdog' definition was actually attached to the *auditor* as such – but all industrial accountants have long regarded themselves as watchdogs in a different sense – watchdogs of their companies' assets, goodwill and trading potential – and by that token it is obvious that they must be closely

concerned with the use that is made of insurance, as a means of protection against loss. And I submit that the good accountant should go beyond that stage: he should be more than watchful - he should concern himself with the expense of insurance and should consider how such expense can be saved perhaps by action at an earlier stage: to give three brief examples - the heavy cost of employers' liability insurance is to some extent related to the accident record in the works, which may be the special concern of the safety officer or the welfare department; the fire premium is often related to structural characteristics of the buildings and to fire-fighting installations that are the concern of the appropriate departments; and the rising cost of motor vehicle insurance is of immediate concern to the transport manager, who may find the accident ratio responsive to incentive schemes for 'safety first' drivers - and so on. In all these cases it is usually the accountant who will be the first to know the situation in terms of cost – and it is he, therefore, who should encourage the others to action.

#### III. FIRE INSURANCE

#### Introduction

5. I put fire insurance first, because the fire risk normally represents the most serious as well as the most commonplace hazard to which a factory is exposed. The fire risk can be said to demand attention even before the building begins to take shape; from the time that factory buildings are on the drawing board, it is important to consider the eventual fire risks. Indeed, the necessity for fire protection nowadays has a significant influence upon the selection of materials for construction and upon the incorporation in the design itself of fire fighting equipment and fire alarm systems. In today's conditions, which demand buildings of increasing height, it is obvious that fire

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protection devices will increasingly need to be decided on and incorporated in the structure itself, at an early stage in the development programme; indeed, where a building exceeds about eleven storeys in height, the fire prevention equipment that serves the top storeys must be completely independent of ground-level water supplies, as it is almost impossible effectively to pump ground-level water above this height—and it is probable that independent water tanks and auxiliary equipment will be positioned at various heights in the structure, for this purpose.

- 6. When considering a company's fire insurance requirements, you will have at the outset to decide:
  - (a) What assets?
  - (b) What values?

are to be insured against fire. Neither of these questions is quite simple to answer.

#### What Assets?

7. For a start, it will be best to schedule all buildings and all contents, plus goods stored in the open and goods held elsewhere than at the factory itself and then to consider whether there is any class of goods that is impervious to fire damage and to damage by water used in extinguishing a fire, that is also capable of definition in the policy as an exclusion. It is most important to appreciate that exclusions from cover, to be accepted by the insurance company as such, must be accurately defined in the policy and it follows that such exclusions must also be identifiable. The view is sometimes advanced that the foundations of a building do not need to be covered against the fire risk; on the other hand, although the foundations may be impervious to actual fire damage, would the foundations remaining after a serious fire retain any structural value?

#### What Values?

- 8. This is the question that dwarfs all others, as far as fire insurance is concerned. When you begin to consider values, you must decide which of the following alternative bases of valuation you wish to adopt: and if you decide to call in a professional valuer you should make known your choice to him before he begins his work.
  - (a) The reinstatement basis (known as 'new for old'): on this basis the insurance is intended to provide in full the cost of present-day replacement of the assets destroyed.
  - (b) The indemnity basis (known as 'like for like'): on this basis the insurance is intended to enable you to replace the assets destroyed, but after including a cash contribution from yourself, representing the improvement derived from having new assets in place of old.

You will also have to consider whether the policy is to be governed by average, or alternatively, by a special condition of average.

- 9. These questions are dealt with as follows:
- (a) Reinstatement basis. To arrange insurance on this basis there is a special clause available under which payment will be made of the cost of rebuilding or replacing after the damage, in a condition equal to that existing when the original property was new, provided, of course, that the total sum insured and the annual premium payable, were correctly calculated on this basis.

The reinstatement basis cannot be applied to the insurance of stock-in-trade, but it is now widely used in the case of buildings and plant. You should notice that the policy does not require the insured to rebuild in exactly the same way as before the fire – nor even on the same site; in the case of plant, moreover, the new machinery need not be of the same make or capacity as the old – but the reinstatement condition does provide that if the new building is larger than the old, or the new plant has a greater capacity than the old, the insured party is liable to contribute in respect of the increase in size or value of the assets.

You should also note that the reinstatement contract assumes that the insured will, in fact, reinstate: in fact, the additional sum it provides, over and above the indemnity basis, is only payable as and when reinstatement takes place, and then only to the extent actually incurred and within the limit arranged. But the fact that the insurance has been written on a reinstatement basis does not of itself compel the insured party to deal with his claims on that basis – he may if he wishes request a financial settlement on an indemnity basis – see next paragraph.

(b) Indemnity basis. This is the principle found in the normal type of fire policy, which undertakes within the limits of the sum insured to indemnify the insured party for an amount representing the value of the property destroyed - at the time of the loss. In other words, the value insured is deemed to be present-day, cost, less some allowance - often quite small, and not connected in any way with the monetary value that may have been written off for accounting purposes - to represent loss of condition owing to usage. The reference in the previous sentence to the non-suitability of the depreciation figure is emphasized; accountants should beware of arriving at insurable values by reference to written-down figures in the books of account; not only will these figures have been usually derived from original cost rather than present-day value, but the amount of depreciation written-off is often related to quite different considerations, and can lead to the written-down figure being very substantially below the real value of the assets - let alone allowing for the increased cost of replacement.

It is obvious that under the indemnity basis the insured will be required to contribute towards the cost of replacing the assets destroyed. Whilst in theory at any rate the insured should have available a cash reserve provided by his annual provisions for depreciation, he must appreciate that the consequence of a serious fire may require a very substantial cash contribution – and may therefore impose a serious drain upon his working capital. Against this possible disadvantage must be set the benefit he enjoys by reason of paying a lower premium than if he adopts the reinstatement basis.

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Before deciding between the reinstatement and the indemnity bases, therefore, you should carefully consider whether your company can afford to carry the insurable risk represented by the difference; it is probable that many companies diligently seek to cover every single item in their inventory, yet give relatively little thought to the much bigger question involved by these fundamental alternatives.

- (c) Average. By 'average' we mean an expression in the policy stating that if at the time of loss the sum insured is less than the actual value at risk, then to that extent the insured party shares the loss with the insurer: for example, assume a building is worth £20,000 and due to negligence is insured for only £12,000, the policy being subject to average: if there is a fire which does damage to the extent of £5,000, then the insurance company will only pay 60 per cent of £5,000. The clause operates as a protection to the insurance company and as a guarantee that they receive a premium proportionate to the risk they are covering. It also operates as a warning to the insured, to notify the insurance company of the full value to be covered, in the first place, and to maintain this value and increase it whenever necessary.
- (d) Special condition of average. In certain insurances a special condition of average operates, often described as the '75 per cent condition of average' - or some similar percentage. This clause states that average will only operate if the sum insured is less than 75 per cent of the value at risk. The intention behind this clause is that the insured party shall have some measure of elasticity in the matter of providing full insurance cover; he is not required to adjust his cover for every fluctuation in the value covered by the policy, and provided he is at least 75 per cent covered, the policy will pay a claim in full, up to the monetary limit stated in the policy. But it should be appreciated that if a claim arises and the sum insured proves to be, say, only 70 per cent of the value at risk, the claim will only be paid to the extent of 70 per cent of the loss. Moreover, despite the advantages of elasticity, the insured must appreciate that if

he avails himself of the 75 per cent condition of average he will suffer a serious loss through under-insurance if his property is 100 per cent destroyed by fire, because the indemnification will be limited in any case to the sum stated in the policy.

On balance, the special condition of average can provide a useful saving of premium – providing the insured party realizes that in the event of a total loss he will be carrying a substantial portion of the risk himself.

#### Fire Fighting Equipment

ro. We shall not attempt to discuss the technical aspect of fire fighting equipment. The significance of the subject to the industrial accountant is twofold because, if an industrial building is constructed so as to be reasonably fire-resistant – see comments later – and if it is also equipped with suitable automatic devices such as sprinkler systems,

- (a) the likelihood of complete destruction by fire is substantially reduced;
- (b) the cost of fire insurance should be lowered by reason of the special discounts available in recognition of the structural and other steps taken to minimize the fire risk.

The phrase, 'fire-resistant', as applied to the construction of buildings, should be always regarded with caution. One of the greatest hazards experienced by insurers, for instance, is unbroken roofing containing inflammable elements, which in the past has led to serious fires. Further, it must be recognized that automatic fire alarm systems and fire fighting systems are subject to certain limitations, no matter how ingeniously they are constructed. Indeed, in the case of purely 'first aid' fire fighting equipment, such as fire extinguishers, the discounts offered do not normally exceed about 15 per cent – an indication perhaps of the fact that they represent no more than 'first aid'

11. More elaborate fire fighting equipment – including auxiliary and independent water supplies – will rank for higher premium discounts, according to the standard of reliability possessed. A first-class sprinkler installation – maintained and serviced regularly – will qualify for as much as 50 per cent discount on the fire premium.

#### **Additional Perils**

12. It is customary for fire policies to cover additional perils, as a matter of convenience – rather than for these to be the subject of separate policies. Amongst these additional perils, one finds:

explosion; riot and civil commotion; impact damage; storm, tempest and flood; water damage; aircraft and articles dropped therefrom. September 1st, 1962

By tradition, it seems, these additional peril insurances are handled by the fire offices – and although geographical considerations may render certain areas of a factory more vulnerable than others, it is usually desirable to include in the combined fire policy such of these additional risks as it is desired to cover. The selection of these risks is, of course, for individual companies to consider. Companies should also consider the various additional clauses available to meet special requirements, such as:

(a) Site clearance clause. This clause covers the expense of removing fire debris, shoring up and dismantling. Site clearance can be a problem fraught with the most unexpected complications. By way of some light relief, let me mention a case, where a fertilizer factory had to clear a site, on a part of which had rested a large dump of decomposing animal hides – not improved by having been soaked by the water used in extinguishing the fire: the hides had formed an obnoxious solidified mass – and it proved necessary to remove the entire mound and convey it to the sea coast, where it had to be re-loaded into a suitable vessel and 'dumped' far out to sea.

Other problems will arise where, for example, the destroyed building occupied unusually deep foundations, necessary perhaps to accommodate a piece of machinery requiring exceptional operating space.

- (b) Local authorities clause. It is desirable to incorporate a clause agreeing to pay for the additional expense incurred after a fire to meet the requirements of the local authority such as moving undamaged walls back to a building line, or rebuilding in a different material than the damaged property these requirements occasionally being made by a local authority in the interests of local planning.
- (c) Architects' and consultants' fees. Following a serious fire, expense will be entailed under this heading and it is desirable for the fire policy to include cover for this item.

If these clauses are adopted you must be careful to raise the sum insured to correspond with the additional sums involved: these clauses cannot just be 'tacked on', without endangering the sufficiency of the insurance.

#### IV. CONSEQUENTIAL LOSS INSURANCE

#### **General Considerations**

13. Along with fire insurance one should always consider the case for consequential loss insurance – sometimes referred to as loss of profits insurance. There is a direct connection between the two forms of insurance; whereas the intention of a fire policy is to indemnify the insured against material loss by

fire, the purpose of the standard consequential loss policy is to indemnify him against the loss resulting from the interruption to his trading, by reason of fire, lightning and explosion.

- 14. It must be understood at the outset that you cannot operate a consequential loss policy unless you also operate an ordinary fire policy, i.e. a material damage policy.
- 15. As a generalization it can be stated that the purpose of a consequential loss policy is to replace the following:
  - (a) the net profit assumed to have been lost during the stated period following the fire;
  - (b) the cost of standing charges for the period; these can loosely be termed fixed expenses, but are referred to in more detail below;
  - (c) the increased expenditure incurred by combating the interruption caused by the fire; these increased expenses may represent the renting of temporary premises, the subcontracting of certain processes interrupted by the fire; the additional cost of goods which may have to be obtained hurriedly in order to complete certain orders; the cost of hiring additional plant or equipment in order to carry on the more essential orders in progress and thus to maintain as much customer goodwill as possible;
  - (d) the cost of auditors' fees in connection with the production and certification of details supporting the claim.
- 16. The foregoing items are commented upon in more detail, as follows:
  - (a) Loss of net profit. For this purpose net profit is defined as the net trading profit (exclusive of all capital receipts and accretions and all outlay properly chargeable to capital) resulting from the business of the insured at the premises after due provision has been made for all standing and other charges including depreciation, but before deduction of any taxation chargeable on profits.

It should be noted that this definition does not necessarily tie the insured to his previous year's net profits – he can insure for an increasing trend of profits if desired.

(b) Payment of standing charges. The selection and definition of standing charges is at the discretion of the insured when he takes out the policy; it is up to him to decide, at the outset, which are the expenses he would have to continue to pay after a fire, in order to keep business in being. In addition to the more obvious 'fixed expenses', a substantial element of works wages will in today's conditions fall within this definition; the treatment of wages

for this type of insurance is separately dealt with later in this section.

In selecting standing charges for insurance, the accountant's opinion will be of importance; in general, you should be prepared to include all the running expenses of the company except those which might be held to become unnecessary following a fire – such as advertising in some cases. But it is important to appreciate that if certain insured standing charges are not, in fact, incurred following the fire, they cannot be claimed under the policy.

It will be understood that nothing has to be included in standing charges for tax – because the figure insured for net profit is deemed to be net profit before tax. Incidentally, any sum recovered under the consequential loss policy will rank as taxable profits, but conversely the premium is allowed as a trading expense.

- (c) Increase in cost of working. The normal consequential loss policy will cover the additional working expense that is always incurred immediately following a serious fire up to the monetary limit stated in the policy. The policy, however, does not give you a free hand in this matter and only such additional expenses as are necessary and reasonable will be allowed in the claim; their purpose must be to avoid or minimize the reduction in turnover that is the direct consequence of the fire.
- (d) Auditors' fees. This will represent a sum entirely outside the annual audit charge, and should be insured at a fully adequate sum, bearing in mind the special nature of the work involved.

#### Treatment of Wages

17. The treatment for insurance purposes of wages has in recent years undergone several important changes - resulting from the different industrial atmosphere in which we now live. Formerly, it was considered sufficient to treat as standing charges only the wages of key workers - whilst the bulk of the works payroll was regarded as an item requiring insurance for only a week or two, to enable the company to pay that amount in lieu of notice. But in post-war conditions, companies could not risk losing works employees to competitors for labour and it became customary to insure as a separate item a much larger proportion of the works payroll - and also to extend considerably the indemnity period for this insurance. On the other hand, experience proved that it was difficult to hold the balance between the portion of wages to be treated as standing charges, and the balance to be separately insured for a specified period: consequently, a new formula has been devised, called the 'dual basis' scheme. Under this method wages are excluded from the figure of standing charges and are separately insured. The insurance then operates on the same basis as for net profit and standing charges, i.e. the indemnity period is the same, and the indemnity is measured in relation to the shortage of turnover - with adjustments for increased cost of working and for standing charges not incurred. But the indemnity for wages is calculated by reference to two separate periods: during the first period, which is a minimum of four weeks, the full works payroll is covered, and during the remainder of the indemnity period only a reduced proportion is covered, as selected by the insured when he takes out the insurance. There are two important options, viz. the insured is allowed to 'carry over' from the initial period to the subsequent period any saving in wages effected by reductions of labour; and he also has an 'option to consolidate', under which he can condense the period of partial wages cover, and correspondingly increase the period of full cover within certain limits agreed upon when the policy is drawn up.

18. The foregoing is a brief description only, of a subject that merits more detailed study.

#### **Indemnity Period**

19. As regards the indemnity period of the consequential loss policy, accountants as well as engineers may be called upon to advise upon this; it is worth bearing in mind here that whilst this period should ideally be governed by normal commercial considerations as to how long the profit earning capacity might be interrupted - in practice this length of time may be dictated by such matters as governmental controls upon building work, necessitating a far longer 'recovery' period being covered by the policy. And there is a further advantage in providing for a fairly lengthy indemnity period; provided the period is not less than twelve months the insurer will include an 'accumulated stock' clause which provides that in assessing the trading results after the fire, due regard will be paid to depletion of stocks, and an equitable allowance made.

#### Extensions

- 20. In recent years there has been a demand for extending consequential loss insurance to apply to premises other than the insured's own. Hitherto, we have assumed that the consequential loss is caused by a fire occurring at the insured's own premises. It must be recognized that an equally serious loss may be incurred by a variety of other causes; we do not need to discuss these in full detail in this paper but they may be briefly stated as follows:
  - (a) Supplier's premises. It is obvious that a fire at an important supplier's premises can have a serious effect upon the insured's production and his consequential loss policy can therefore be extended to cover this risk; the rate charged

- will depend upon the limits selected, the perils insured and the nature of the outside premises involved.
- (b) Customer's premises. Similar remarks apply. There have been large claims paid in cases where a company's output has been curtailed in consequence of a fire at an important customer's premises.
- (c) Property of the insured, stored elsewhere. This, of course, refers to the insured goods stored in depots and warehouses outside the area of his principal works.
- (d) Property of the insured, temporarily deposited.

  This extension refers to property sent for processing.

#### Claims Settlements

- 21. The usual basis on which a claim is calculated will be in relation to turnover, after the fire. This assumes that the insured loss can be calculated by applying to the reduction in turnover the ratio which insured standing charges and net profit combined normally bear to turnover. Apart from special provisions which may be recognized when the insurance is arranged, the policy agrees to pay, on the amount of turnover lost, the percentage which net profit plus standing charges bore to the turnover in the last financial year before the fire. This percentage is called the rate of 'gross profit' - but you will appreciate that this definition may differ in several respects from the gross profit shown in the annual accounts; firstly, a significant portion of productive wages may be included in the insured standing charges - and secondly, there will be certain profit and loss account items of expense which will have been excluded therefrom when these standing charges were selected for insurance.
- 22. Similar calculations would, of course, be made in respect of shortage of *output*, if the output standard were the one selected for the policy.
- 23. Accountants will readily appreciate the extreme importance of watching the current figures of turnover or output because average will be applied to this policy, and if it be found that the annual rate of turnover or output immediately prior to the fire was, in fact, running at a higher level, then the claim will be reduced in proportion to the ratio of undercalculation. Moreover, it will usually be the accountant who will be held responsible for ensuring that the indemnity under the policy is kept in line with current trading conditions. Incidentally, a rebate of premium can be obtained each year if the certified results of the business show that there has been an over-insurance and it is obviously therefore better to over-insure than otherwise.
- 24. If it is considered desirable to arrange an indemnity period longer than twelve months, the sum insured must be proportionately increased.

#### **Explosion of Steam Boilers**

25. As a point of interest, not always appreciated, you will find that the standard consequential loss policy includes cover against losses resulting from the explosion of steam boilers or economizers; these particular risks are usually excluded from the standard fire policy – and just why they are covered by the consequential loss policy is perhaps a matter of history rather than strict logic.

#### Other Risks than Fire

26. Consequential loss insurance does not necessarily relate to the consequence of *fire*; hotels, for example, can insure against trading loss resulting from such local calamities as epidemics – and similarly for other industries, provided the risk can be acceptably defined and identified.

#### Consequential Loss not Covered

- 27. It must be appreciated that certain forms of consequential loss cannot be covered by insurance and these may be extremely heavy. In particular, you cannot cover:
  - (a) the loss of goodwill;
  - (b) loss of book debts but it is possible to cover by a separate policy the loss of book debts caused by the destruction of records in the fire;
  - (c) legal expenses relating to death or injury caused by the fire – these are usually covered by an employers' liability or public liability policy;
  - (d) financial loss due to under-insurance in the fire policy itself.

#### Description 'Consequential Loss Insurance'

- 28. Before completing this section of the paper, it may be of interest to reflect that the description 'consequential loss' has to a large extent superseded the title 'loss of profits' for this type of insurance. The latter title places perhaps too much emphasis upon 'profits', whereas the policy is concerned with more than profits it can cover additional expenditure incurred in order to minimize the loss of turnover, and it can provide the special options already described in connection with the insurance of works wages; indeed, the policy could operate even if there were no profits at all it could be of vital importance to a business that was passing through a period of trading adversity, by meeting standing charges and perhaps an increased cost of working.
- 29. The entire subject of consequential loss insurance is a complicated one and in a paper of this sort it has not been thought desirable to describe the subject in too much detail.

(To be continued.)

#### THE ACCOUNTING WORLD

# The Profession in Switzerland

by MARY E. MURPHY, Ph.D.(Lond.), C.P.A.

THE training of the Swiss professional accountant is governed by law, with certain bodies authorized to hold examinations and award diplomas. The senior of these examining bodies is the Schweizerischer Kammer für Revisionswesen (Swiss Chamber for Audit Matters), which sponsors Intermediate and Final examinations covering accounting, auditing, commercial law, taxation and company organization. Six years of qualifying employment in commerce and/or professional accounting is prescribed, with emphasis being placed on auditing experience. The successful candidate is entitled to describe himself as Diplomierter Bücherexperte, which may be translated as 'certificated accountant', a title protected by law.

Examinations on a lower standard are carried out by the Schweizerischer Kaufmannischer Verein (Swiss Commercial Society), which prescribes five years' practical experience in industry and commerce during which the examinations for the Eidgenössisches Diplom für Buchhalter (Federal Diploma for Book-keepers) are taken. The successful candidate is entitled to describe himself as Diplomierter Buchhalter (certificated book-keeper), this title also being protected by law.

The examination syllabus for both groups is broad and the standards set are high. For the size of the country, accounting and business literature is of excellent quality, and it is possible to study all phases of the profession in universities or university colleges.

Individuals who pass the examination for Bücher-experte may join the Verband Schweizerischer den Bücherexperten (Society of Swiss Certificated Accountants) and are entitled to use the designation V.S.B. after their names. Those who pass the examination for book-keepers may join the Vereinigung eidgenössisch diplomierter Buchhalter (Union of Federal Certificated Book-keepers) and use the designation V.E.B. The headquarters of both these organizations are in Zürich.

Limited companies are required to appoint auditors in Switzerland, but it is not stipulated that these auditors be professional accountants. Accountants and auditors are permitted to practise in limited companies which may function as official auditors, and there are several such comparatively large organizations which operate in this capacity. Foreign

This is the fifth article in this series; others have appeared as follows: International Freedom: June 16th, 1962, issue; Belgium: June 30th issue; France, July 14th issue; Italy: August 8th issue.

accountants, if they can obtain a work permit, may practise in Switzerland.

Under the Swiss Companies Act, 1936 – on the whole a liberal law – there are several restrictions regarding the issues of capital and the presentation of balance sheets and profit and loss accounts. Limited companies in Switzerland are considered to be private businesses which account only to their members and, with the exception of banking and insurance companies, are not required to publish or register their annual statements.

There are few requirements in the law concerning the contents of financial statements. Usually these documents do not provide detailed information and, in general, financial practice exhibits a tendency in Switzerland toward conservatism. The balance sheet is usually an actual account of the ledger, and it must comply with the 1936 Act. Ordinarily the profit and loss account includes only the gross profit, together with certain administrative and financial charges.

Limited liability companies with capital exceeding 5,000 francs must have their annual financial statements audited by an accountant, who issues a report to the company controller and to the general meeting of stockholders. In his report, the auditor must express himself as to any important shortcomings in the management of the company discovered in the audit, the distribution of profits, and the efficiency of the accounting system. The influence of the report is somewhat restricted because Swiss fiscal authorities and the Chamber of Commerce do not actually require that this report be produced with the financial statements. The auditor has the right to be present at a company's general meeting.

#### BELGIUM

#### **Consolidated Accounts**

THE technique used to consolidate the accounts of a group can be considered under three headings:

- (1) Substitution replacement of the holding company's investments in subsidiaries by the assets and liabilities of the subsidiaries.
- (2) Elimination of inter-company transactions and unrealized profits.
- (3) Separation of the interests of minority share-holders from the interests of the group.

An article published not long ago in the Revue Belge des Sciences Commerciales reviewed the subject of consolidation in the light of observations made by a French mission which made a study trip to the U.S.A. The three headings given above are taken from the report of this mission, edited by the French Productivity Agency. The article pointed out that consolidation is required by law in Britain and Sweden, virtually obligatory in the U.S.A. by reason of S.E.C. requirements there, common in Germany and Holland, but rare in France and Belgium.

Although consolidated accounts are legally required in some States of the U.S.A., the S.E.C.

requirements are the principal source of practice across the Atlantic. These rules call for consolidation of the accounts of companies in which the holding company has an interest greater than 50 per cent of the voting capital. Accounts prepared at different dates can be consolidated, providing that not more than ninety-three days (or three months) separates them. The dates of each subsidiary's accounts must be explicitly stated and reasons given for such differences. In addition, inter-company transactions between the date of the subsidiary's accounts and that of the holding company's must be stated and their treatment explained.

#### UNITED STATES

#### **Lease Option Financing**

THE City of Los Angeles now has more long-term debt under lease-purchase financing than under general obligation bonds, stated a contributor in a recent issue of *The Journal of Accountancy*. The growth of such financing since the Second World War has been little short of phenomenal. The leasing of car fleets is rising at the rate of 20 per cent per annum.

The advantages are obvious – the lack of any down payment in many cases, the freedom from borrowing restrictions, the benefits of piecemeal financing, the fact that present accounting practice allows the contract to be omitted from the balance sheets and relegated to notes, with improved working capital and current ratio figures, perhaps making possible additional financing. The lessee may be able to avoid the risk of obsolescence and he may save in income tax. Against this there are the burden of fixed rental payments, while profits may be declining, and the necessarily higher rates of interest.

As yet the accounting profession has not accepted the necessity for disclosure of the lease commitments by insertion in the lessee's balance sheet of the resulting asset and liability at their present discounted values.

#### OVERSEAS TAX DEVELOPMENTS

The following information has been supplied by the Foreign Section of the Library of the Board of Inland Revenue.

#### Australia

No changes in rates or allowances are proposed for the year commencing July 1st, 1962.

#### Federation of Malaya

The Income Tax Act, 1962, makes the following provisions:

Tin Buffer Stock. If an election is made to have contributions under the Tin Control (Buffer Stock) Regulations ignored for income tax purposes, repayments under those regulations are exempt from income tax; otherwise such repayments are assessable in the year of payment.

Plantations. Capital expenditure incurred after 1961 on the clearing of land or on planting is allowable as to one-half in each of the year of expenditure and the next year, instead of being spread over ten years.

Tin mining. The initial allowance in respect of capital expenditure on machinery and plant used in tin mining is increased from 20 per cent to 60 per cent; this increased allowance may by Order be extended to other machinery and plant.

Shipping and air transport profits. The present exemption of such profits of non-residents, subject to reciprocation, is withdrawn as from 1962 unless provided for by a double taxation agreement.

#### Grenada

The rate of tax on companies is increased to 40 per cent for 1962; the rates for other persons remain unchanged.

# Weekly Notes

#### CANADIAN INSTITUTE'S DIAMOND JUBILEE

THIS week the sixtieth annual meeting and conference of The Canadian Institute of Chartered Accountants was held in Fredericton, New Brunswick. Some 700 members and their wives from all parts of Canada assembled last Monday, the joint hosts being the President of the Canadian Institute, Mr George W. Hudson, F.C.A., and Mr G. Andrew Oulton, F.C.A., President of the New Brunswick Institute of Chartered Accountants. Among the official guests were Mr Graham Usher, M.B.E., T.D., C.A., Immediate Past President of the Scottish Institute; Mr J. W. Queenan, C.P.A., President of the

American Institute of Certified Public Accountants; Mr C. W. Andersen, General Registrar, Australian Society of Accountants, and Mr H. Gerritsen, Honorary Secretary, Nederlands Instituut van Accountants.

The annual general meeting of members last Monday started three busy days of conference sessions, including even a breakfast meeting on Tuesday at 8.30 a.m. Two simultaneous sessions were held on Monday afternoon; five on Tuesday morning, including one in French; and three in each of two periods on Wednesday morning, besides a full morning session. A Provincial Government lunch took place on Tuesday at which the guest speaker was the Premier of New Brunswick.

The conference concluded with luncheon on Wednesday, when Mr James W. Abbott, F.C.A., was elected President of the Canadian Institute for the ensuing year. Mr Abbott is a partner in the Winnipeg

office of Peat, Marwick, Mitchell & Co, following the merging of his own firm in the partnership in 1960. He was President of The Institute of Chartered Accountants of Manitoba in 1955-57.

We hope to include a report of the diamond jubilee conference in next week's issue of *The Accountant*.

#### NINTH INTERNATIONAL CONGRESS 1967 IN CANADA?

AT its diamond jubilee conference held in New Brunswick during this week, the Canadian Institute issued an invitation for the Ninth International Congress of Accountants in 1967 to be held in Canada. This invitation will doubtless be considered, together with others which may be received, at the Eighth International Congress in New York this month.

## SCOTTISH INSTITUTE'S NEW APPRENTICESHIP GUIDE

REVISED edition of the C.A. Apprenticeship Guide just issued by The Institute of Chartered Accountants of Scotland incorporates recommendations approved at a special general meeting of the Institute held on June 25th last (The Accountant, June 30th). This helpful booklet for those wishing to make the profession their career, presents with clarity the conditions of eligibility for admission to member-

ship of the Scottish Institute.

A number of changes have taken place in the Institute's policy in the training and examination of apprentices since the publication of the last Guide in June 1961. The principle revisions reflected in the booklet are as follows. As from the date on which the Privy Council approves the amendment, registration dues will be increased from fio ios to £31 10s, of which the apprentice's master will pay £21, the balance of £10 10s payable by the apprentice remaining unchanged. Total remuneration for the normal five-year apprentice has been raised to £1,250, commencing at £150 per annum in the first year and rising to £400 per annum in the fifth year; this compares with the old scale of £100 per annum for the first three years, £200 in the fourth year and £300 in the fifth year. The new scale is designed, in the words of the President, in order 'not to make entry to the profession impossible to those with limited means'. There has also been a slight increase in all examination fees which come into operation in 1963 and total disbursements in respect of examination fees, university class fees and books have accordingly been increased to £200 from £175. The fee for admission to membership will be increased from forty to fifty guineas after the end of of this year.

A particularly interesting and important change reflected in the *Guide* is the intention of the Council that, in respect of indentures lodged after February 29th, 1968 for registration, the preliminary qualifications required will be an attestation of fitness for entry into a Scottish university or a university degree as at

present approved by the Council for reduction of the period of indentured service.

Also issued is the second edition of the Institute's Can I Become a C.A.? for distribution to schools and universities, which answers many such questions as Am I the kind of person to make a good chartered accountant? What would my prospects be? How do I become a chartered accountant? and What does it cost to become a chartered accountant?

#### REPORT ON COMPANY GROUPS

THE recent flurry of take-over bids once again brings to the fore the question whether large industrial groups can be said to operate in the public interest. Lately, the investigation of company grouping has been the subject of an exercise by a subcommittee of the Birmingham Junior Chamber of Commerce and their findings suggest that, in general, amalgamations and take-overs are beneficial to the community as a whole. In most cases, they say, not only is better use made of assets and labour employed but also the larger units are more capable of taking advantage of the benefits of automation, mass production and the co-ordination of research.

Although the subcommittee were fully aware that this trend could lead to a state of trade monopoly, they consider that this danger was to some extent counteracted by the development and expansion of the Common Market – and for countries outside the Common Market by the abolition of protective tariffs.

One word of warning, however, about the dangers of rapid growth is addressed to management in particular: it is always possible for a business to expand beyond the capabilities of its present management team and the subcommittee therefore make a strong plea for the training of executives in the higher levels of management – a point which will find ready support in many quarters.

As to industrial holding companies, although the subcommittee feel that there was less economic justification for these kind of groupings, they go on to say that perhaps the main public benefit is the prevention of complete monopoly in any industry in which the

group is represented.

# EXPLORING THE FOUNDATIONS OF ACCOUNTING

EVER since double-entry book-keeping first made its bow before the world of business, accounting methods have been developed in response to a wide variety of impulses and under a variety of influences. Some have been dictated by the nature of the environment; others can be laid at the doorstep of practitioners faced with technical problems for which the environment gave no clear direction signs. Development has been piecemeal; it could not have been otherwise and will doubtless continue in the same vein. It should not cause undue surprise, therefore, to find a number of different accounting systems running concurrently. Nor will it have

escaped attention that some of these systems seem to be contradictory.

The mere existence of a variety of methods along with their internal inconsistencies force the profession to reconsider underlying ideas and the constant search for a general theory was carried a step forward by Professor R. J. Chambers, Professor of Accounting in the University of Sydney, in giving the 1961 Annual Endowed Lecture of the Australian Society of Accountants in the University of Adelaide, which has recently come to hand in published form.

The paper does not take the form of a survey of accounting practices nor of an appraisal of the lore of teachers and practitioners of accounting. Instead, its purpose is to explore the economic and social foundations of accounting in pursuit of a body of general ideas on which the practice of accounting is or may be based, and to start with it considers at length just two cases – natural persons as producers and consumers; and simple trading enterprises. Constructing a coherent network of ideas out of the mixture of psychological, economic, legal, conventional and formal considerations is indeed a formidable task.

# This is My Life ...

by An Industrious Accountant

CHAPTER 135

IT started when I was signing some cheques for routine drapery purchases and noticed that we hadn't availed of some special discounts for payment within seven days of invoice date. Apparently, the section manager, in spite of reminders from the accounts department, hadn't completed the goods received record in time. A query to him elicited an angry grumble that the bales had been held up deplorably in our transport section, not for the first time either.

A visit to transport revealed a scene of confusion unparalleled in our history. Outgoing vans, incoming carriers' vehicles, casual hand trolley-carts, were tangled up inextricably. Our exit route had admittedly been overburdened by allowing some of the contractors' men to bring in supplies, but there was no excuse for permitting private cars to park near the outer loading bay. Traffic was at a trickle; no wonder the flow of purchased stocks was being delayed.

The transport manager seemed overwhelmed. Normally a very reliable type, he's nevertheless short of initiative; emergencies fluster him. 'I play it by ear', he maintained doggedly; this revolting piece of jargon really means that he hopes that chance, or some enterprising subordinate, will clean up the mess for him. It was impossible, however, to intrude on his domain; he had his own responsibility and wouldn't welcome interference. I could only murmur vaguely about the urgent necessity to earn our discounts.

A big railway truck was delivering crates marked 'Fragile – this side up'; the loading platform wasn't clear so some of the crates were diverted aside; they fouled the moving hook dangling from an overhead runway and toppled a stack of boxes. Everyone started shouting contrary instructions. The T.M.

told his assistant briskly to sort it out, and avoided my eye. He stood hesitantly, hands plunged deep in his brown overalt pockets, face unhappy, obviously beaten. Across the congested, dusty hall we could see the managing director sauntering towards us, his quiet little smile not necessarily indicating inward ecstasy. 'Oh, hell,' said the T.M., with deep feeling.

So it wasn't exactly a surprise to be asked later that day to review the organization of the transport section and recommend improvements. Our outfit doesn't have experienced engineers readily available to examine layout problems; such headaches are often tossed over to me as the Jack of all trades. This I find gratifying, not so much for empire-building as to give my internal audit chaps some practical operational studies.

So I sat down amicably with the T.M. to talk things over and agreed to second an internal audit man to transport to do an immediate survey. I selected Frank, a studious young fellow of academic distinctions. He was keen on the idea; it would enhance his prestige, and his section's, if we improved the system. The snag was that Frank notoriously runs to delusions of grandeur. His first idea was to stroll round with notebook and stopwatch – an independent master-mind on Goethe's style, reading each wound, each weakness clear:

'He struck his finger on the place, And said "thou ailest here, and here".'

It took some tact to bring him back to reality. He must work temporarily as a subordinate to the T.M., to keep the chain of command simple and optimize relationships with the transport staff. He would, however, have considerable freedom and would report independently. He accepted this compromise cheerfully and all seemed well...until the following morning, when Frank came storming in to me, flushed with insult. "That so-and-so wants me to wear brown overalls,' he raged. 'What does he think an accountant is?'

No fooling, tact is the main factor in attaining efficiency nowadays. It took a lot of eloquence to prevent Frank from really dropping a brick.

<sup>&</sup>lt;sup>1</sup> Towards a General Theory of Accounting.

£1,054,404

# Finance and Commerce

#### Metal Industries

£983.847

THE accounts of Metal Industries Ltd for the year to March 31st, 1962, are the subject of our reprint this week. This company's standard of reporting has earned good marks from commentators on company accounts. It is an example, as one said, 'which it is to be hoped more companies will follow'.

The M.I. group has a history that goes back to the salvaging of the scuttled German fleet from the Scapa Flow waters, and one of the group's four main sections is concerned with 'Metals recovery' and ship-

breaking. As M.I. has since developed, there are now other sections for 'Electrical and electronic control and instrumentation', for 'Electrical power and distribution' and for 'Hydraulic and mechanical engineering'.

Last year the company broke new ground, as Sir Charles Westlake, the chairman, reminds shareholders in his review, by publishing the individual profits of all the companies in the group – a fact that was noted with approval in this column.

It was a good way of giving shareholders more information, observed Sir Charles, in view of

#### METAL INDUSTRIES LIMITED Consolidated Profit and Loss Account for the year ended 31st March 1962 1961 2,451,993 2,339,656 TRADING PROFIT (note 6) After charging: Depreciation 678,422 720,468 Directors' emoluments: 3,958 61,873 5.000 For management 53,113 58,113 7,149 23,823 7.149 Pensions to past directors and dependants 23,621 102,773 Auditors' remuneration and expenses Interest on bank overdrafts 51,384 And crediting: Income from investments (gross) 43.051 2,341 Interest on deposits (gross) Exceptional profit arising from changes in bases of accounting and valuation of stocks and work in progress of 96,387 certain subsidiaries (note 7) 93,8(2 2,436,043 2,545,805 Deduct: TAXATION United Kingdom: 910,766 306,025 1,011,319 Income tax on profits for the year Profits tax 1,383,267 1,216,791 Transfer from taxation equalisation reserve 65.570 63.011 153,784 Overprovision in respect of previous years . 92,550 997,437 1,290,717 42,357 53,942 1,039,794 1,344,659 1,396,249 TRADING PROFIT AFTER TAXATION 1,201,146 160,651 Pre-acquisition profits of subsidiarles 1,235,598 1.201.146 68 107 8,751 Profits retained by subsidiaries PROFIT ATTRIBUTABLE TO METAL INDUSTRIES LIMITED 1,133,039 1,226,847 450,000 Transfer to general reserve Dividends (net): 300,000 72,949 274,711 72,949 . 275,813 Ordinary: Interim of 6% 413,720 Final interim of 9% 413,720 689,533 1,211,380 1.062,482 70.557 15,467 983,847 968,380 Brought forward from 1961

UNAPPROPRIATED PROFIT OF METAL INDUSTRIES LIMITED

LIMITED
NDUSTRIES
METAL I

Septe	mber 1	lst, 1962	ACCOUNTANT		267
		£ 2,821,960 1,804,956 271,775 289,268 5,187,959	107,302	10,616,338	612,911,599
		Gross Book Accumulated Values Depreciation 3,611,789 789,829 4,653,462 2,848,506 570,049 298,274 697,297 64,344,638	187,518	5,907,771	
		Gross Book Values 3,611,789 4,653,462 570,049 697,297		4,284,286 630,716 570,101 8,958 413,720	
	. 2962	FIXED ASSETS Freehold and leasehold land and buildings Plant and machinery Motor vehicles	PREMIUM ON ACQUISITION OF SHARES IN A SUBSIDIARY LESS AMOUNT WRITTEN OFF (note 10)  TRADE INVESTMENTS at cost	Deduct: CURRENT LIABILITIES Creditors and accrued liabilities United Kingdom and overseas taxation Bank overdraft Preference dividend (net)	
	et 31st March 19	1961 £ 2,829,272 1,846,024 289,348 241,338 5,205,982		619,478 4,788,919 619,478 678,575 8,958 413,720 6,509,630	750,152,231,037
	Consolidated Balance Sheet 31st March 1962	Issued and Fully Paid   1,212,000   1,560,000   7,505,123   —	199,670	4,372,235	665,116,513
	Cons	£ Authorised 1,212,000 1,560,000 7,505,123 4,722,877 £15,000,000	3,000,000	1,029,723 32,848 . 32,848	Chairman Director
		::::	:: ::	: : • • • • • • • • • • • • • • • • • •	
,		::::		* : * * * * * * * * * * * * * * * * * *	C. R. WESTLAKE W. PADLEY
		. ; ; ;	::	5 (Mecc	% ≯ ≯
METAL INDUSTRIES LIMITED		SHARE CAPITAL  5% Cumulative preference stock  32% Cumulative preference stock  Ordinary-stock  Shares of £1 each	CAPITAL RESERVES Share premium account (note 10) General capital reserve (note 4) REVENUE RESERVES Metal Industries Limited: General reserve Profit unappropriated	T/	
METAL INE		1961 1,212,000 1,560,000 7,505,123 10,277,123	6,935,600 154,506 7,090,106 2,700,000 983,847	857,479 62,387 919,866 This b	622,231,037

THE

#### THE ACCOUNTANT

#### **METAL INDUSTRIES LIMITED**

Notes to Accounts

31st March 1962

#### CONSOLIDATED BALANCE SHEET

- Contracts for future capital expenditure are estimated at £146,000.
- 2 Overseas currencies have been converted at the rates ruling at 31st March 1962.
- Fixed Assets: Gross book values are included either at cost or on the basis of valuations by directors at various dates since 1929 or at net book values at 31st December 1947 with additions since at cost.

4	Movements in general capital rese	rve:						£	٠,
	Balance at 31st March 1961	••	••	••	••	••	••	I.	154,506
	Surplus on sale of fixed assets					••		33,501	
	Transfer from revenue reserves of	subsid	diaries	• •	• •	• •		10,371	
	Other amounts	••	••	••	••	••	••	1,292	45,164
	Balance at 31st March 1962	••		••	••	••			£199,670
5	Movements in revenue reserves of Balance at 31st March 1961	subsi	diaries:	:				•	260.095
	Add:	• •	••	••	••	••	••		200,075
	Profits retained by subsidiaries	••	••	••	••	••	••		68,107
	Deduct: Transfer to general capital reserve					••	••		328,202 10,371
	Balance at 31st March 1962	••	••	••	••	••	••		£317,831

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT

- The comparative figures for the previous year in the consolidated profit and loss account include the results of companies in the former Lancashire Dynamo group for the fifteen months ended 31st March 1961 and of companies in the Alcol group for the nine months ended 31st March 1961. The equivalent trading profit for the year ended 31st March 1961, apportioned on a time basis, would have been £2,163,864.
- 7 The exceptional profit of £93,812 shown in the consolidated profit and loss account arises as follows:

132.853

39,041 £93,812

£

(Stock and work in progress of two further subsidiary companies remain to be adjusted to the consistent Group basis next year.)

#### CONSOLIDATED AND PARENT COMPANY BALANCE SHEETS

- Amount written off shares in a subsidiary, thus eliminating the premium 6,935,600
- Taxation:
  No provision has been made for United Kingdom taxation (less double taxation relief) which
  No provision has been made for United Kingdom taxation (less double taxation relief) which would arise in the event of overseas subsidiaries distributing reserves or unappropriated profits.
- 12 There is a contingent liability on the parent company, amounting to £45,000, in respect of the uncalled share capital of a trade investment.

their acquisition of the Lancashire Dynamo companies. But while this was an advance in company reporting, he was not 'wholly satisfied that it was enough to give figures of profit unrelated to turnover and to the proportion of our stockholders' assets employed in securing those profits'.

#### Optimum and Minimum

This year, therefore, the board decided to present results 'in a form which brings together individual companies into sections whose activities are closely related'. For each section, the company now gives not only the profits earned but also figures of turnover and the proportion of net assets employed in each section. This 'Analysis of results' forms part of our reprint and explains itself.

'I feel sure', Sir Charles goes on, 'that this modification of the form of presentation will be accepted as a real attempt to give the optimum amount of information to stockholders with the minimum of risk that their investment might be jeopardized by disclosure to competitors' - a sentiment which we cannot but endorse and applaud.

Also included in our reprint is an analysis of the Ordinary stockholding. Information of this nature in company reports is increasing, we are glad to note; of particular interest here is the evidence of the substantial increase in the holdings of institutional investors. At 58 per cent, their aggregate holding compares with 33 per cent of the equity ten years ago.

Sir Charles mentions the fact that all classes of the company's stock are now 'wider-range' trustee securities and scrutiny of the lists of stockholders who have come into the company in recent months, he says, suggests that quite a number are trustees who for the first time have been able to invest in Metal Industries.

#### Terminal Loss

"HIS year's accounts of John Thompson Ltd, the engineers, continue to reflect the unfortunate experience of the builders of the

#### METAL INDUSTRIES LIMITED

#### **Analysis of Results**

Trading profit before taxation 1960/61 (annual basis)	-	Trading profit before taxation	Sales (excluding inter-group)	Profit on sales	Net assets at 31st March 1962 (at balance sheet values)	Return on net assets
1,147,842	Electrical and electronic control and instrumentation	£ 1,512,274	£ 10,771,913	<b>%</b>	6,612,485	% 23
427,003 260,084	Electrical power and distribution Hydraulic and mechanical engineering	355,018 408,301	8,099,225 3,614,972	4 11	4,008,548 2,596,096	9 16
195,756	Metals recovery	97,551	9,685,166	ı	2,433,780	4
103,746	Other Group companies, including overseas subsidiaries	48,157	2,034,314	2	1,227,158	4
2,134,431	1	2,421,301	34,205,590	7	16,878,067	14
29,433	Metal Industries Limited	30,692			-966,468	
2,163,864		£2,451,993	£34,205,590	7	£15,911,599	15
175,792	Proportion of 1960/61 profit relating to period prior to 1st April 1960 (note 6)				<u> </u>	<u> </u>
£2,339,656	Profit before taxation 1960/61 per published accounts					

Notes: (A) A list of the companies included under each sub-heading will be found on pages 18 and 19.1
(B) The figure shown for the net assets at 31st March 1962 of Metal Industries Limited is made up as follows:

Net assets per balance sheet on page 11<sup>1</sup> 14,536,822 Deduct: Interest in subsidiaries . . . . . . . . . . . . . . . . . . 15,503,290

-£966,468

1 Not reproduced - Editor

#### METAL INDUSTRIES LIMITED

#### Stockholders 1952-1962

The issued ordinary capital of Metal industries Limited at 31st March 1962 was £7,505,123 held by 9,764 members. This compares with £3,120,000 held by 4,965 members at 31st March 1952.

			Number		Stock Held: Amount		Stock Held: Per cent	
•			1952	1962	1952	1962	1952	1962
Institutional Investors:					. £	£	%	%
Insurance companies			40	75	241,456	1,487,642	7.74	19.82
Investment trust companies			69	192	122,452	619,230	3.92	8.25
Pension trusts			10	. 58	18,804	550,521	.60	7.33
Banks and nominee companies			139	<b>4</b> 55	514,654	1,423,368	16.50	18.97
Other limited companies			36	· 71	68,684	99,069	2.20	1.32
Charitable, educational and religious b	odies .	• •	. 4	28	72,433	189,732	2.32	2.53
		Sub-total	298	879	1,038,483	4,369,562	33.28	58.22
Individual Stockholders:								
£!—500			4,110	7,666	789,533	1,578,161	25.31	21.03
£501—1,000			378	871	262,650	621,541	8.42	8.28
£1,001—5,000			151	330	283,211	555,307	9.08	7.40
£5,001 and over			28	1,8	746,123	380,552	23.91	5.07
•		Sub-total	4.667	8,885	2,081,517	3,135,561	66.72	41.78
	C	Grand total	4,965	9,764	3,120,000	7,505,123	100.00	00.001

Berkeley Atomic Power Station, in which the company was concerned in partnership with Associated Electrical Engineering. The main contractor was A.E.I.-John Thompson Nuclear Energy Co Ltd.

It was hoped that last year's provision for the anticipated loss on the John Thompson group's subcontract would be sufficient. But owing to the complicated nature of the contract, additional costs were incurred and emerged which it was difficult to foresee. Sir Edward Thompson, the chairman, adds that 'at this late stage of the contract as far as we can see, the further reserve we have made should be sufficient'.

The consolidated profit and loss and appropriation account for 1961 shows a provision for terminal loss on Berkeley Nuclear Power Station contract of £429,000; against which, however, has been immediately offset taxation relief of £227,907, leaving £201,094 which has been balanced off with a transfer of that amount from general reserve.

#### Deed of Covenant

Apart from this provision in respect of its subcontract; John Thompson has also to meet its obligation as a shareholder in the main contracting company which is responsible for the Berkely contract as a whole. To meet its one-third share of ascertained losses, it contributes annually by deed of covenant.

Sir Edward notes that in the 1961 accounts of A.E.I., it was stated that it was not possible to assess the financial outcome of this main contract. But on their part in 1959, he continues, John Thompson set aside £500,000 as a special 'Nuclear contracts reserve' from which the annual covenant payments are made to A.E.I.-John Thompson Nuclear Energy Co. A further £300,000 has been added this year as 'a precautionary measure'.

The consolidated profit and loss account includes payment under deed of covenant, less tax, of £49,654, which has been balanced off by the transfer of that amount from the nuclear contracts reserve.

The Berkeley Nuclear Power Station's first generator was switched on to the national grid on June 11th to become the first commercial nuclear power station to operate in Britain. Its erection was a new experience for all concerned. Sir Edward is able to report that at Dungeness - the next contract commitments were very much less than at Berkeley. 'The contract', he says, 'is proceeding well'.

#### CITY NOTES

THE prospect of a material reduction in interest rates and a further release of special deposits to the banks has injected considerable strength into the gilt-edged market. Undated stocks now stand at their highest levels for more than two years.

In contrast to the strong improvement in the giltedged section, the equity markets have tended to lose the fire with which they began their rally three weeks ago. New investment in equities is on an extremely selective basis and there is widespread acknowledgement of the fact that, although some industrial reexpansion is in prospect, there can be no early return to strong industrial company profit growth.

Common Market uncertainties also tend to dampen equity enthusiasm and the apparent contradictions in official statistics - the improvement in the industrial production index against the continued down-turn in bank advances, for example - make for defensive rather than offensive equity investment policy.

So far as the gilt-edged market is concerned there are now definite signs of a downward trend in longterm interest rates which, until recently, had stayed obstinately high despite a  $2\frac{1}{2}$  points reduction in Bank rate. Prospect of a reduction in long-term rates is the main driving force in the current strength of Government stocks.

The strength of the market currently being tested by a fro million New Zealand loan is expected to be subjected to further home corporation borrowing soon.

#### RATES AND PRICES

Closing prices, Wednesday, August 29th, 1962 Tax Reserve Certificates: (interest rate) 25.8.62 2½%

Bank Rate							
Oct. 27, 1960	51%	Nov. 2, 1961	6%				
Dec. 8, 1960	5%		51%				
July 26, 1961	7%		5%				
Oct. 5, 1961	6 <u>1</u> %	April 26, 1962	41/2%				
			1270				
	Treasu		0.0 10/				
	s 11.8d%		7s 8·89d%				
	s 5.03d%	Aug. 3 £3 10	6s 5.05d%				
July 6 £3 18	s 0.63d%	Aug. 10 £3 1	5s 8·84 <i>d</i> %				
July 13 £3 17	s 9·32d%		5s 8·35d%				
July 20 £3 18	s 7·14d%	Aug. 24 £3 I	5s 4·50d%				
	Money	Rates					
Day to day	27-37%	Bank Bills					
7 days	21 31%		3 <del>1</del> 8−4%				
Fine Trade Bills	-4 38/0		3 18-4%				
3 months	r1-6%	4 months	318-4%				
4 months	5 <del>1</del> -6% 5 <del>1</del> -6%	6 months	318-416%				
6 months	51-61%	O IIIOIIIII3	2 16 -4 16 70				
o monus							
	Foreign E		,				
New York	2·80 🔒	Frankfurt	11.50 <sup>5</sup>				
Montreal	3.01 👭	Milan	1738 <del>§</del>				
Amsterdam	10.10	Oslo	20.03 <del>§</del>				
Brussels	139.33	Paris	13.72				
Copenhagen	19.39	Zürich	12.114				
	Gilt-e	dged					
Consols 4%	67₹	Funding 3% 59-	60, 88-%				
Consols 21%	448	Savings 3% 60-7					
Con'sion 51% 197		Savings 3% 65-7					
Conversion 5% 19		Savings 21 % 64-6					
Con'sion 3½% 196	$\frac{71}{90}$ $\frac{90}{80}$	Treas'ry 5½% 200					
Conversion ale/	79 092 F08-d	Transver #9/ 86	89 88 <del>18</del>				
Conversion 3½% Exchequer 5½% 19 Funding 5½% 82-	59%xd	Treasury 5% 86- Treasury 3½% 77					
Funding #10/ 0-	Q4 047	Tecasury 32 /0 //	7-80 75 <del>1</del>				
Funding 57 % 62	04 95\$	Treasury 31% 79	1-81 74 <del>8</del>				
Funding 4% 60-9	0 918	Treasury 2½% Victory 4%	44 16 xd				
Funding 3½% 99- Funding 3% 66-6	04 65 <del>8</del>		OF+				
	8 88	War Loan 3½%	95 <del>1</del> 60₩				

#### FOR STUDENTS

### VERIFICATION OF STOCK

#### Stock Reconciliations

THE verification of stock-in-trade is an annual headache. It is difficult for the auditor to satisfy himself as to the accuracy of the stock figure merely by inspecting a bundle of stock sheets. For this reason it is often advisable, particularly where raw materials are concerned and where sufficient information is available, to rely more upon stock reconciliations. These can be prepared either by weight, by value, or by both. They will look somewhat as follows:

Memorandum Stock Reconciliation Account

Opening stock Purchases less returns Goods issued Closing stock

The usual problem is to discover the issues figure, but this is available in a surprisingly large number of businesses if one knows where to look for it. Again, one must be careful where values are being used, to ensure that all figures are prepared on the same basis. A reconciliation of this type will not be exact but will quickly disclose any large discrepancies.

Much the same can be done for work in progress though, in this case, the information is likely to be less readily available. Here the account will appear:

#### Memorandum Work in Progress Account

Opening work in progress

Materials issued
Other direct expenses
Overheads where applicable

Value of completed work Closing work in pro-

The value of reconciliations such as these is considerable. True, the necessary data may not always be readily obtainable, particularly for work in progress, but where this information is available, it should surely be used.

#### **Physical Checks**

It is often suggested that the auditor should make a physical count of stock. In fact, the best way of ascertaining the existence of anything is usually to inspect it. However, it is worth remembering that while a physical inspection will discover the extent of the stocks held it will not establish how much ought to be there. This can only be found out by other means, the reconciliation being one of them.

Physical checks are not always feasible. In the first place it is necessary for the auditor to attend at the time when stocks are being taken. Secondly, the auditor is not normally sufficiently qualified, technically, to classify the various items in store. Nevertheless, there is no reason why he should not, where possible, apply the moral curb of attending the stocktaking as an observer and, particularly where a stores ledger is maintained, there is no reason why he should not make physical spot checks at various times.

The legal position as to the necessity for physical verification is slightly vague. There is a dangerous tendency to rely rather too much on the dicta in the Kingston Cotton Mill case where special considerations may be said to have applied, and there is no certainty that that decision would be followed in future. In fact the later case of Irish Woollen Co Ltd v. Tyson and Others deserves more attention. The stock error here was perhaps of a different type (arising from the suppression of invoices) but the decision went against the auditor.

Much reference is made to the famous McKesson & Robbins case in the United States. In fact this was more a case of auditors relying too much on certificates supplied from areas not visited, than of a mere failure to check stock by physical means. To this extent it has more in common with In re City Equitable Fire Insurance Co Ltd, than with the Kingston Cotton Mill case.

#### McKesson & Robbins

As the facts of the *McKesson & Robbins* case are not given in most textbooks it may be useful to summarize them here.

Frank Donald Coster (born Philip Musica) obtained control of McKesson & Robbins when it was still a small manufacturing concern. In a comparatively short space of time he had built it up into a giant company, the third largest of its type in the world, of which he was president. He also, during this time, swindled the company out of \$2,900,000.

The fraud was based on a fictitious trade in drugs and the collaboration needed at the McKesson & Robbins' end was provided by Coster's two brothers, working under assumed names, at key points in the organization. Drugs would be ordered from a fictitious company in Canada and a forged invoice therefrom would be placed in the file. A ticket would be made out showing the drugs as stored in a fictitious Canadian warehouse and a letter written to a non-existent bank, Manning & Co, ordering payment to be made.

The drugs (which were, of course, mere figments) would be sold through a firm called W. W. Smith & Co. This was, theoretically, a world-wide trading concern (or so the auditors of McKesson & Robbins believed) but in fact was a dingy back-street office kept by another of Coster's brothers, Vernard. McKesson & Robbins would receive a letter from W. W. Smith & Co stating that the goods were sold and a file of forgeries would then be built up recording the disposal of the goods. The file would include a statement from Manning & Co indicating that the purchaser had paid for the goods. A genuine cheque would then be made out to W. W. Smith & Co by way of commission and the cash would shortly find its way back into Coster's pocket.

All the phoney forms were pre-printed and typed by a girl in Vernard's office using seven different typewriters. Vernard also kept a girl at the Montreal address of Manning & Co. Twice a year she received letters from the auditors of McKesson & Robbins asking for verification of that company's balance in hand and a list of the stocks in the five (fictitious) warehouses. The letters were forwarded to Vernard who wrote the separate replies and parcelled them back to Montreal, where they were posted.

So it went on. Whatever happened to the rest of the company, the crude drugs division always made a profit. True, the paper profit kept on being ploughed back into more (non-existent) drugs but nevertheless,

the assets of the company continued to increase. The crisis came with the slump in 1937 when the directors ordered a general conversion of stocks into cash, including \$2 million of the stocks in Canadian warehouses. This of course was impossible and the truth gradually came out. In the event the assets of the company had to be written down by \$21 million or one-quarter of its wealth.

Unbelievable? Yet the story is nevertheless true.

Let the auditor beware!

# Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

#### Whole Pound Accounting

SIR, - The letter you have published in your issue of August 18th from Mr W. C. Nowell raises an interesting question and you refer to the Port of Bristol Authority as an undertaking which adopts this procedure. I take it, therefore, that you may be

interested in receiving my comments.

The practice of dispensing with shillings and pence in the internal accounting systems of large undertakings certainly has advantages both in saving time and avoiding errors. The opportunities for adopting whole pound accounting rest more with the larger undertakings with a certain degree of mechanization, because without mechanization it might be more trouble than it is worth. It is also to be remembered that in this electronic age a saving may not show itself in that part of the work that is processed through a computer which can deal with pounds, shillings and pence just as easily as pounds only and that the input is probably in full sterling even though the results are tabulated without shillings and pence. At the stage where postings take place to final accounts and costs records - and this varies with the degree of mechanization - posting in pounds only is in my view much to be preferred both for revenue and expenditure. The method of achieving whole pound accounting is simply by programming the machines to carry forward the odd shillings and pence and add them to the totals for the next day, week or month as the case may be. It is in fact very much the same procedure as paying wages without coin.

The elimination of shillings and pence not only reduces the risks of errors in posting, but produces

more compact and readable records.

There is a further gain in that when the annual accounts are being prepared for publication there is a worth-while saving of time because each part of the report can be sent to the printer as completed without

waiting for the whole and with the knowledge that a figure printed on one page will not have to be altered in another context to make it add up to a correct total. Whole pound accounting can go a very long way, but in as much as all accounts with third parties must still be in pounds, shillings and pence there is a point in the system where these must be accommodated and when your correspondent introduces the word 'entire' I doubt whether this is really practicable so long as the calculation of wages and accounts receivable are  $f_s$  s  $f_s$ .

Yours faithfully,

Yours faithfully, J. A. PHILPOTT, M.B.E., F.A.C.C.A. Accountant

Bristol, I PORT OF BRISTOL AUTHORITY.

#### **Television Rentals**

SIR, - The following observations are pertinent to the questions raised in a letter signed 'T. V. Hire' in your issue of August 11th. It is always better, where possible, to segregate the hiring from the normal selling side of the business through the medium of two companies - one to do each particular type of business. The hiring company could then acquire the TV sets from the selling company as these were needed and would claim appropriate capital allowances thereon. If capital allowances are to be claimed on the sets, they must be in use for the purposes of the hiring trade. The retailing of electrical goods will not have incurred capital expenditure on plant which would be the subject of capital allowances if the expenditure has been incurred on trading stock for sale in the trade.

So far as the hiring business is concerned, it would appear that this really consists of obtaining income by letting out the sets for a rental and not as a result of selling the sets. It may well be, therefore, that the sum received for the rental agreements is a capital sum as your correspondent suggests. Nevertheless, the case is bound to be made more difficult because of the dual aspect of the trade which might be said to be the turning to account of electrical goods and therefore all sums which are received in this connection are to be regarded as receipts of the trade for taxation purposes.

Yours faithfully, RENTALS.

# Electronics in the Office

#### **New Computer**

NEW computer - known as KDF 6 - has been added to the English Electric Company's range of data-processing systems. Based on magnetic tape and specifically designed for commercial organizations the system will cost as little as £50,000, or it can be rented.

To exploit completely the power of KDF 6, English Electric have written for it a new automatic programming language, "Talk'. With this programmes can be written in plain English, and these are translated by the computer into its own language. Executives with only a minimum knowledge of electronic data processing can write their own programmes. "Talk' takes full advantage of the most recent work on existing programming languages, a simplified presentation has been achieved, and many advances in automatic programming have been incorporated.

KDF 6 is capable of undertaking all types of commercial operations including production control, cost accounting, billing, banking, insurance, building society work, and hire-purchase.

#### Common Machine Language

THERE is more to characters printed in magnetic ink than meets the eye, as may be seen from the ninety-nine page booklet The Common Machine Language, issued by The American Bankers' Association, which contains the encoding recommendations of the Association's Technical Committee. Since British banks have decided to adopt the United States system of encoding, the present booklet will be found useful to all who are concerned with the implementation of the decision and with further developments.

The first chapters deal with the redesign of cheques, in particular with the bottom margin, reserved for repeating, in magnetic ink, what amounts to a translation of the normal language content into machine language. Under the heading 'Implementing the programme' there is an urgent request for the banks to read thoroughly the precautions contained in this chapter and to adhere closely to them in order to obtain the full benefits of mechanization of cheque handling, both for themselves and for others, i.e. not to hinder, by premature or ill-advised action, the uniformity required by mechanization of cheque handling. For it is in the nature of the problem that the objective cannot be reached until a very large

<sup>1</sup> Publication No. 147R, issued by the Bank Management Committee, The American Bankers Association, 12 East = 36 Street, New York 16, N.Y. Price \$1.50.

portion of the cheques – if not all – presented to the machine carry the necessary details in a precisely formulated and precisely printed manner.

Unfortunately, while the common machine language is simple enough, the language in which the specification is written and explained is highly technical, and it includes, among others, references to waveforms as they appear on the face of an oscilloscope. Banking terms disappear in the second half of the booklet entirely and give way to engineering terms, dimensional drawings of the numerals and symbols and their printing.

The fount which since Christmas 1958 became officially known as E-13B, managed to dominate the basic concepts of banking automation on both sides of the Atlantic and became a source of controversy. It is one of the declared purposes of this booklet to give in full detail all the requirements of proper cheque format and of encoding and whatever the future may bring by way of amendments or adaptations in the light of local or regional experience – the present booklet will be found of benefit to both bankers and engineers.

#### **Computer Brochures**

TO explain the various techniques they have developed to make their computers compatible with other systems, Honeywell's E.D.P. Division have produced a booklet entitled *Honeywell Talks Your Language*.

The brochure explains that the company provide equipment that can 'talk' more than one computer language, thereby making different machines easily and economically compatible. This equipment includes magnetic tape converters that facilitate change-over to a Honeywell system, tape translators that permit continuous interchange of data between computers of different makes, and communications control equipment that make transmission of data over long distance lines feasible between Honeywell or Honeywell and 'foreign' electronic data processing systems.

Also available is a brochure describing the company's new 1800 electronic computer system. Entitled, Honeywell 1800 Facts and Figures, it discusses the features of the powerful 1801 central processor, including parallel processing and orthotronic control, the 1801B floating point arithmetic option, the various input-output equipment and automatic programming aids.

Copies of these brochures are obtainable from Honeywell E.D.P. Division, Moor House, London Wall, London EC2.

#### Computer for Life Assurance Companies

THREE Scottish life assurance companies have arranged the joint purchase of an I.C.T. 1500 electronic computer. They are: The Scottish Equitable Life Assurance Society, Scottish Life Assurance Company and Scottish Provident Institution.

A subsidiary company is to be formed to manage and operate the computer, and installation is expected to be completed in the middle of next year. The machine will also be available to outside interests wishing to hire time.

# New Legislation

All new Acts are noted in this column, together with those Statutory Instruments which are of interest to the profession. The date given indicates when an Act received the Royal Assent or when a Statutory Instrument becomes effective.

# STATUTES (10 & 11 Eliz. 2)

#### Chapter 40: Jamaica Independence Act, 1962

An Act to make provision for, and in connection with, the attainment by Jamaica of fully responsible status within the Commonwealth.

Price Is net.

July 19th, 1962.

#### Chapter 41: Colonial Loans Act, 1962

An Act to amend the Colonial Loans Acts, 1949 and 1952.

Price 3d net.

July 19th, 1962.

#### Chapter 42: Law Reform (Damages and Solatium) (Scotland) Act, 1962

An Act to amend the law of Scotland relating to damages and solatium by extending the entitlement of parents to sue in respect of the death of a child, and to remove a doubt as to the title of a child to sue in respect of the death of his mother while his father is alive.

Price 3d net.

July 19th, 1962.

### Chapter 43: Carriage by Air (Supplementary Provisions) Act, 1962

An Act to give effect to the Convention, supplementary to the Warsaw Convention, for the unification of certain rules relating to international carriage by air performed by a person other than the contracting carrier; and for connected purposes.

Price Is net.

July 19th, 1962.

#### Chapter 44: Finance Act, 1962

An Act to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, and to make further provision in connection with Finance.

Price 5s 6d net.

August 1st, 1962.

#### Chapter 45: Appropriation Act, 1962

An Act to apply a sum out of the Consolidated Fund to the service of the year ending on the thirty-first day of March, one thousand nine hundred and sixty-three, and to appropriate the supplies granted in this Session of Parliament.

Price 3s net.

August 1st, 1962.

### Chapter 48: Law Reform (Husband and Wife) Act,

An Act to amend the law with respect to civil proceedings between husband and wife.

Price 5d net.

August 1st, 1962.

### Chapter 49: Air Guns and Shot Guns, etc., Act, 1962

An Act to restrict the use and possession of air guns, shot guns and similar weapons.

Price 5d net.

August 1st, 1962.

#### Chapter 50: Landlord and Tenant Act, 1962

An Act to require the giving of information by landlords to tenants; and for purposes connected therewith.

Price 5d net.

August 1st, 1962.

#### Chapter 51: Licensing (Scotland) Act, 1962

An Act to make provision in Scotland for the grant by licensing Courts of new forms of certificate for the sale by retail of exciseable liquor; to amend the law in Scotland regarding the sale and supply of exciseable liquor and regarding licensed premises and clubs; to prescribe the hours during which premises in Scotland licensed for the sale and supply of exciseable liquor for consumption off the premises may remain open for the serving of customers with such liquor; to restrict the carriage of exciseable liquor on public service vehicles used as contract carriages; and for purposes connected with the matters aforesaid.

Price 2s 6d net.

August 1st, 1962.

#### Chapter 52: Penalties for Drunkenness Act, 1962 An Act to increase the penalties for certain offences involving drunkenness or punishable under enactments relating to such offences.

Price 3d net.

August 1st, 1962.

#### Chapter 53: House of Commons Members' Fund Act, 1962

An Act to make fresh provision with respect to the powers of investment of the trustees of the House of Commons Members' Fund.

Price 5d net.

August 1st, 1962.

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#### REVALUATION OF ASSETS

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# Notes and Notices

#### PROFESSIONAL NOTICES

MESSRS HART, KELLAND & CO, Chartered Accountants, of 213a Monument Road, Birmingham 16, announce that as from September 1st, 1962, their practice will be amalgamated with those of MESSRS LITTLEBOY, GILLETT & Co and Messrs HAY MCDONALD & CO, Chartered Accountants. The combined practices will be carried on under the partnership name of: GILLETT, KELLAND & CO, 7 George Road, Edgbaston, Birmingham 15. Telephone: Edgbaston 5871 (2 lines) and the partners in the new firm will be: Messrs J. A. GILLETT, F.C.A., J. D. KELLAND, F.C.A., R. RAVENSCROFT, F.C.A., M. J. SHANNON, A.C.A., all of whom will be engaged therein full time.

#### **Appointments**

Mr H. J. Binder, F.C.A., has been appointed chairman of Central Wagon Co Ltd.

Mr R. Helliwell, A.C.A., has been appointed a joint managing director of J. H. Peck & Co Ltd.

Mr A. F. Taffs, F.C.A., has been appointed a director of Buries Markes Ltd; he continues as secretary of the company.

Mr B. B. C. Watson, B.A., A.C.A., has been appointed secretary of Courage, Barclay & Simonds Ltd.

#### MR C. A. WHITTINGTON-SMITH, LL.M., F.C.A.

#### New Appointment in Sheffield University

Mr C. A. Whittington-Smith, LL.M., F.C.A., has been appointed Dean of the Faculty of Economic and Social Studies in the University of Sheffield – not Southampton as published elsewhere. Mr Whittington-Smith will continue to be senior lecturer in charge of the Department of Accountancy and Financial Administration in the University. The new appointment takes effect from September 1st, 1962.

#### TAX RESERVE CERTIFICATES

The Treasury has announced that as from August 25th, 1962, tax reserve certificates of the ninth series issued under the terms of the prospectus dated March 21st, 1961, will bear interest at the rate of  $2\frac{1}{2}$  per cent per annum. The rate of interest on certificates of the ninth series subscribed before August 25th, 1962 will remain unchanged.

### NORTHERN SOCIETY OF CHARTERED ACCOUNTANTS

Mr J. C. Benson, F.C.A., a partner in the firms of Winter, Robinson, Sisson & Benson, and Deloitte, Plender, Griffiths & Co, of Newcastle upon Tyne, has



been elected President of the Northern Society of Chartered Accountants for 1962–63. Educated at Sedbergh School, Mr Benson was admitted an Associate of the Institute in 1938. He served in the Army throughout the last war returning to practice in 1945.

A member of the committee of the Northern Society from 1945 to 1953 (and again since 1959) he served as the Society's honorary

secretary and treasurer during the period 1947-49. The new Vice-President of the Society is Mr F. E. Proom, F.C.A., a partner in the firm of Graham, Proom & Smith, also of Newcastle upon Tyne. Other officers for 1962-63 are as follows:

Hon. Secretary: Mr R. W. Thoburn, F.C.A., Messrs Ridley & Ridley, 12 Windsor Terrace, Newcastle upon Tyne 2.

Hon. Treasurer: Mr T. M. Sadler, A.C.A.

Hon. Dinner Secretary: Mr R. L. Mills, F.C.A., Messrs Joseph Miller & Co, Mosley Street, Newcastle upon Tyne 1.

#### **Annual Report**

The Society's annual report records that membership at December 31st, 1961, totalled 435 – an increase of twenty members during the year. Sixteen local members of the Scottish Institute also participated in the Society's activities.

The committee reports that the informal lunches held at Newcastle and Sunderland during the year were well attended; the subjects considered at these meetings included 'Some thoughts on investment policy', 'Statistics in industry', and 'The procedure of income tax appeals'. An interesting programme of social functions included the annual dinner, attended by over three hundred members and guests; a pot pie supper with the local Inspectors of Taxes, which was very well attended, and the annual golf meeting held at Ryton.

Membership of the North Yorkshire and South Durham Branch again increased during the year and

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numbered 195 at December 31st. Lecture meetings and luncheon meetings were arranged and a visit was made to J. W. Cameron Ltd, of West Hartlepool. The annual dinner, attended by 155 members and guests, was held at Middlesbrough.

The Cumberland Branch – with a membership of eighty-two – held two lecture meetings during the year and social events included the annual ball, held at the Royal Oak Hotel, Keswick, and golf meetings at Carlisle and Workington.

#### J

#### THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES Finding and Decision of the Disciplinary Committee

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on July 30th, 1962.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a clerk under articles to a Fellow of the Institute had been guilty of the following acts or defaults: Whilst previously under articles to another Fellow of the Institute he failed to comply with the provisions of the articles in that (a) in breach of Article 2 (i) he failed faithfully and diligently to serve his principal; (b) in breach of Article 2 (iv) he failed to conduct himself with all due diligence, honesty and propriety; (c) in breach of Article 2 (v) he absented himself from the service of his principal without his principal's consent first obtained, and otherwise conducted himself in a manner unfitting for an articled clerk, so as to render himself liable to be declared unfit to be a Member of the Institute under the provisions of clause 22 of the supplemental Royal Charter of December 21st, 1948, and bye-laws 104 to 111 of the Institute. The Committee found that the formal complaint had been proved under all headings and the Committee decided that the articled clerk be reprimanded but considered that there existed special circumstances justifying the omission of his name from the publication of the Finding and Decision.

#### CORRECTION

In an article for students on 'Traders' Payments in The Accountant of July 21st, it was stated under the sub-heading 'Mechanics of the system' on page 81 that the information on the credit slip should include '(d) the reference number of the remitter's bank'. This should have read 'the remittee's bank'.

#### SEVENTY-FIVE YEARS AGO

From The Accountant of September 3rd, 1887 From a leading article

## THE AUDIT OF THE ACCOUNTS OF FRIENDLY SOCIETIES

The vast number of friendly societies, and the fact-that they are scattered all over the Kingdom, and are to be found in every village, town and city in the land, gives to the question of the professional audit of their accounts a general interest, which properly looked at is, perhaps, possessed by no other like subject, if we except the question of the audit of the accounts of local authorities. It should further be noted, that a Friendly Society Reform Association is now in operation. Its title suggests the objects it has in view. One of these objects is the independent audit of the accounts. It will be seen, therefore, that this subject has great importance for all chartered accountants, that that importance has been publicly recognised and publicly stated by responsible Government officials, that, moreover, voluntary efforts are being made to bring that importance into full public view. We therefore say, as has been already said, in effect, that amongst the matters demanding our attention as a body, this subject should be placed in the forefront.... The question of the audit of the accounts of Friendly Societies can, we firmly believe, be settled in a way which would be satisfactory to the community, beneficial to the Societies themselves as well as to chartered accountants, and in substantial accordance with the opinions of the ablest authorities on the subject. And, if its settlement took the shape which we hope it will, it would not be without importance in its influence on other great questions in which accountants are greatly concerned. . . .

### THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting of the Accountants' Christian Fellowship for Bible reading and prayer will be held at 1 p.m. on Monday next, September 3rd, in the vestry of St Mary Woolnoth Church, King William Street, London, EC3. The Scripture for reading and thought will be Galatians, Chapter 5, verses 16 to 26 (The fruit of the Spirit).

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# ACCOUNTANT

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# End of Gourley?

It is over two years since the Finance Act, 1960, reached the statute book and during this time its contents have been anxiously pondered, if not always understood. There seemed, however, to be little doubt as to the significance of one segment of the Act which had been the subject of widespread publicity since its inception. References to the 'golden handshake' abounded in Press comment on the 1960 Budget and, although this phrase does not appear in the Act itself, a sober marginal note set against section 37 indicates that it relates to payments on retirement or removal from office or employment. The relevant charge to tax is subject to the exemptions and reliefs detailed in section 38, prominent among which is the exclusion in any given case of payments not amounting to £5,000.

We read with a certain sense of shock, therefore, that an award of £1,200 damages to an employee for wrongful dismissal (Parsons v. B.N.M. Laboratories Ltd) reported in The Times of August 31st, was required to be made gross by reason of the fact that it was within the ambit of section 37. We had, indeed, understood that the Finance Act, 1960, modified the area of application of the principle established in British Transport Commission v. Gourley (34 A.T.C. 305), but the report of the Parsons case ascribes to Master Jacobs the statement that section 37 had effected a fundamental change in the law which nullified that principle.

We recall that the decision in the Gourley case was given by the House of Lords on December 8th, 1955, by a majority of six to one after an exhaustive review of the place of taxation in the assessment of damages. The position where a plaintiff claimed loss of earnings because he had been prevented from fulfilling a contract of service was examined, and the view was expressed that a successful plaintiff was entitled to have awarded to him such a sum as would, so far as possible, make good to him the financial loss which he had suffered, and would probably suffer, as a result of the wrong done to him for which the defendant was responsible. Lord Goddand indicated that this involved the deduction of tax at the effective rate and declared that he could see no principle of justice on which the defendants should be called upon to pay more than the plaintiff would have received if he had remained able to carry out his duties.

The Gourley case, however, did not put an end to the problems inherent in this subject. The principle as to the deduction of income tax when assessing damages was, indeed, applied to compensation for compulsory disturbance of business in West Suffolk County Council v. W. Rought Ltd (35 A.T.C. 315),

and to lump sums paid by a liquidator in settlement of a company's pension obligations in Re Houghton Main Colliery Co Ltd (35 A.T.C. 320), while methods of assessment were dealt with in Beach v. Reed Corrugated Cases Ltd (35 A.T.C. 126) and Phipps v. Orthodox Unit Trusts Ltd (36 A.T.C. 267). But it was not long before the British Transport Commission again acted as pathfinder in this legal maze, in a case which illustrated the narrow area of application of the Gourley principle. It was made clear in Herring v. British Transport Commission (37 A.T.C. 382) that where the compensation awarded fell to be dealt with as part of the taxable profits of the recipient the award must be made gross. Again, Spencer v. Macmillan's Trustees (37 A.T.C. 388) and Diamond v. Campbell-Jones (39 A.T.C. 103), cases which related to compensation for nondelivery of property, reflected to some extent the principle reaffirmed in Gourley itself that an award is required to be made gross where it concerns subject-matter having the character of capital.

This review carries us up to the Finance Act, 1960, in which connection we recall with interest the prophetic observations delivered in the course of the only dissenting judgment in the Gourley case. Lord Keith of Avonholm suggested that for the judiciary to anticipate the incidence of taxation was to usurp the functions of the Legislature. If, he said, there was a case for thinking that assessing damages on a basis of gross earnings in actions for wrongful dismissal enabled the individual to escape his fair contribution to the national revenue, the position was one which in his opinion should be rectified by legislation. The question now arises as to the precise scope of the Finance Act, 1960. Master Jacobs indicated in the Parsons case that while it was basic to the Gourley decision that damages were not assessable to tax at all in the hands of the plaintiff, the Act of 1960 now regulates the incidence and extent, if any, of the tax chargeable and payable on such damages. The terms of section 37 were apt to cover damages for wrongful dismissal as being 'a payment made . . . in consequence of or in connection with the termination of employment'. The point was put beyond a peradventure by Schedule 4 to the Act of 1960. We note that this schedule supplements section 38 which relates only to exemptions and reliefs, but no doubt Master Jacobs had in mind the definition in paragraph 13 of compensation for loss of office, a definition which expressly includes a payment made in pursuance of an order of the Court in proceedings for wrongful dismissal. Master Jacobs, having assessed the damages for loss of salary and commission at the gross sum of £1,200 and the tax deductible at £320, said that it was the plaintiff's contention that the Gourley principle no longer applied by reason of section 37. Accepting this contention, he gave judgment for the plaintiff for £1,200.

We agree with the statement attributed to Master Jacobs that the point raised is of considerable importance on which there is as yet no authority. We observe that in the Gourley case Lord REID sought assistance from Mayne on Damages, and we note with interest the view expressed in the twelfth edition of this work that it is arguable whether the first £5,000 damages for loss of earnings should attract the rule in Gourley's case but not any sum in excess of f,5,000. Nevertheless, it appears to us that the Gourley principle continues to operate in respect of the specific exemptions in section 38 of which the most important concerns payments made in connection with the termination of the holding of an office or employment by the death of a holder or made on account of injury or disability. These exceptions are phrased in the same terms as those used to grant exemption from the first £5,000 damages, and the true significance of the Parsons case lies not so much in its treatment of damages under £5,000 as falling within the ambit of section 37 as in the doubts which it raises as to the applicability of the Gourley principle to the much larger sums currently awarded for the death, injury or disability of an employee.

In our opinion it would be most unfortunate if the law on this point should remain in a state of uncertainty. In *Parsons*'s case Master Jacobs said that the Act of 1960 had removed all questions concerning the tax payable by a plaintiff on his future earnings from the purview of the Court. In *Gourley*'s case Lord Keith commented that it was a strange turn of fortune's wheel that the intricacies and accidents of fiscal legislation should have its repercussions in the assessments of damages in the civil Courts. Thus the wheel has come full cycle. But can we rest assured that it has ceased to turn?

# Short-term Gains — IX

### **TRUSTS**

HE peculiarly English device of the trust, with its many ramifications, naturally complicates any legislation for taxing transactions in property. Chapter II of Part II of the Finance Act, 1962, contains many references to trusts. In effect it divides them into two kinds. On the one hand is the trust which exists where one person holds as nominee or bare trustee for another person who is absolutely entitled to the beneficial ownership of the property. This we will call a bare trust. On the other hand, there are the many forms of trusts which are not bare trusts. In relation to bare trusts, Chapter II is to apply as if the property vested in the bare trustee was vested in the person or persons absolutely entitled. In the same way the acts of the trustee or nominee are to be treated, for Chapter II purposes, as the acts of the beneficial owner(s) (section 12 (5)). It follows that Case VII assessments must, in general, be made on the beneficial owner, although in the case of incapacitated persons the ordinary rules as to assessment will apply. It also follows that if a nominee sells property without authority, before the statutory six months or three years have elapsed, he may visit his beneficiary with a tax liability which could have been avoided. No doubt he would be accountable to the beneficiary for this breach of trust; which adds a new terror to trusteeship, especially where the beneficiary pays tax at 17s 9d in the f.

Having dealt in subsection (5) with bare trusts, section 12 then goes on, in subsection (6), to deal with what it calls 'settled property', which is defined in section 16 (1) to mean

'any property held in trust other than property to which subsection (5) of section 12 of this Act applies'.

This definition is expressed to be subject to section 16 (4) which, however, is confined to unit trusts, which are a subject in themselves.

When new trustees are appointed, the trust property is transferred to them, but it would be absurd to impose Case VII liability on such a disposition, since the beneficial ownership does not change. Accordingly, in relation to settled property, the trustees are to be treated, for Case VII purposes, as being a single and continuing body of persons, distinct from the persons who may from time to time be the trustees (section 12 (6)). This is so even where different parts of the settled property are held by different trustees. A body of trustees may well dispose of trust property in the course of their administration, and unconnected with any change in the composition of the trustees, e.g. on a change of investment. Any gain on realization normally goes to swell the trust fund and is not available for enjoyment by any individual beneficiary. Bearing in mind the Government's justification of Case VII as being merely a means to tax what is in effect spendable income, one might reasonably have expected an exemption in favour of settled property. However, there is no such exemption. Indeed, section 12 (6) goes even further. It will be remembered that, as a sine qua non of Case VII liability, the taxpayer must be both resident and ordinarily resident for the year in the United Kingdom (section 10 (1)). Section 12 (6) throws difficulties in the way of legal avoidance by vesting settled property in non-resident trustees. It provides that the body of trustees shall be treated as being both resident and ordinarily resident in the United Kingdom unless

- (i) the general administration of the trusts is ordinarily carried on outside the United Kingdom; and
- (ii) at least a majority of the trustees for the time being are not resident or not ordinarily resident in the United Kingdom.

These are easy words to draft but the practical application of them is certain to cause difficulties. Over what period of time must one apply the test as to where the administration of the trusts is 'ordinarily' carried on? This provision, when it first appeared, must have caused some consternation to those trustee companies in the United Kingdom who earn foreign exchange for us by acting as trustees of settlements made by foreigners. It must also have caused some consternation to their foreign customers. The Government

introduced a proviso at the report stage designed to encourage foreigners to go on using the services of British trustee companies, although it hardly goes as far as one would have expected. The proviso is confined to trusts where the *whole* of the settled property

'consists of or derives from property provided by a person not at the time domiciled, resident or ordinarily resident in the United Kingdom'.

Presumably the phrase 'at the time' refers to the moment when the property was provided, not when the trustees acquire or dispose of chargeable assets. It is a further condition of the proviso that the trustee shall be

- (i) a body corporate;
- (ii) carrying on a business which consists or includes the management of trusts; and
- (iii) acting as trustee in the course of that business. All these requirements being satisfied, the proviso directs that the trustee shall be treated, in relation to that trust, as not resident in the United Kingdom. It follows from section 10 (1) that acquisitions and disposals of chargeable assets will be immune from Case VII.

Section 12 (7) directs that section 12 (6) shall apply in relation to property forming part of the estate of a deceased person and to his personal representatives as it applies in relation to settled property and to trustees of a settlement. However, personal representatives are not to be chargeable to tax in respect of an acquisition and disposal 'by reference to the vesting of the property of the deceased in them'. In other words, the vesting of the property in them is neither an 'acquisition' nor a 'disposal' for Case VII purposes. The phrase 'personal representatives' has the meaning assigned to it by section 423 (4) of the Income Tax Act, 1952. It will be recalled that paragraph 2 (5) of of the Ninth Schedule directs that nothing in paragraph 1 (which we have already dealt with1) is to apply so as to treat a deceased person as disposing of an asset on his death. The fact that section 12 (6) is to apply to deceased persons' estates is foreshadowed by the proviso to subsection (6) itself. The exemption granted by the proviso is expressed in words which indicate that it is to apply also to deceased persons' estates in the same way as to trusts. In the case of such estates, the deceased must satisfy the requirements as to residence and domicile at the time of his death. Properly drafted, section 12 would have included this provision in section 12 (7).

We have already mentioned<sup>2</sup> the provision in section 12 (8) that a person acquiring assets as legatee is not chargeable under Case VII in respect of any acquisition and disposal by reference to that acquisition, except as provided by section 14, which deals with shares in a landowning company. Section 12 (8) goes on to provide that a person shall not be chargeable under Case VII in respect of any acquisition and disposal of a beneficial interest under a settlement. However, this provision must be read subject to paragraph 4 (3) of the Ninth Schedule. This applies where, for a consideration in money or money's worth, a person becomes absolutely entitled to settled property. He might do this by inducing someone, whether the trustees or a beneficiary, to exercise a power of appointment in his favour. Or he may simply acquire interests from individual beneficiaries.

Having acquired the property in this way, then if there is an acquisition and a disposal by him, i.e. if he disposes of the property within the statutory period, he is chargeable under Case VII (paragraph 4 (3) (a). As regards the beneficiary who sells his interest in settled property, he is to be treated as if the acquisition by the trustees was his own acquisition (paragraph 4 (3) (b), with all the consequences provided for by paragraph 18, which we have already discussed.<sup>2</sup> This imposition of tax by paragraph 4 (3) (b) would seem to promise a number of anomalies. If a change of investments is followed within the statutory six months by a disposal by beneficiaries of their various interests, it would seem that the beneficiaries will be chargeable. If, on the other hand, there has been no change of investments by the trustees within the preceding six month, then the beneficiaries can dispose of their interests without Case VII liability. Paragraph 4 (3) is expressed to overrule section 12 (8). But, there is a general provision in section 16 (8) that sections 10 to 15 inclusive are all subject to the Ninth Schedule. Strictly speaking, therefore, the exemptions conferred by section 15 in favour of charities and the like are negatived by paragraph 4 (3) in the case of acquisitions dealt with by that sub-paragraph. However, this cannot have been intended.

<sup>1</sup> See The Accountant, July 21st and 28th.

<sup>&</sup>lt;sup>2</sup> See The Accountant, July 28th.

# 'Know-how' Payments — the Tax Angle

by H. S. A. MACNAIR, F.C.A.

In this article consideration is given to the duties of a person who makes payments in respect of 'know-how' and the scope of relief from income tax and profits tax accorded to such payments; together with the concomitant charge to tax on the recipient.

N computing the profits of a trade for United Kingdom tax purposes, the deduction is permitted of any fees paid or expenses incurred in obtaining, for the purposes of the trade, the grant of a patent or the extension of its term, the registration of a design or the extension of the period of copyright and the renewal or registration of a trade-mark (section 139, Income Tax Act, 1952).

Moreover, where an application for a patent has been rejected or abandoned, the relevant fees and expenses are none the less admissible (section 23, Finance Act, 1952). A non-trader may likewise claim allowances so far as concerns patents, including maintenance of a patent (section 320).

Similarly an individual who, whether alone or with others, devises an invention which is patented may claim allowances in respect of relevant expenses. Such allowances take effect primarily by way of set-off against income from patents but there is an option, exercisable within two years of the end of the year of assessment concerned, to have them relieved against general income (section 324). Moreover, an individual inventor's income from patent rights ranks as earned (section 525).

### Royalties distinguished from Trade Payments

In the case both of traders and non-traders, capital expenditure on the purchase of patent rights may be amortized for tax purposes over the period (not exceeding seventeen years) in which the purchaser has an interest. Any proceeds of sale must, however, be taken into account (sections 316 and 317).

It appears at first sight that less liberal relief is available for revenue expenditure since, in computing profits charged under Cases I and II of Schedule D, no sum may be deducted in respect of any royalty or other sum paid for the user of a patent (section 137). In point of fact, however, this prohibition is of limited effect,

being designed for the purpose of collecting at source tax due from the recipient of the royalty. It is therefore important to distinguish royalties and annual payments from ordinary trade outgoings.

A problem arises where payments are made under the terms of an agreement whereby access to technical knowledge is given not only by the right to use patents, but also through the provision of services. In Paterson Engineering Co Ltd v. Duff (22 A.T.C. 62; 25 T.C. 43) a United Kingdom company undertook to pay sums at a minimum rate of £2,000 per annum to a United States company (with which it had no ties of ownership) in consideration for the use of the American company's patents and processes with the benefit of its advice, knowledge, experience and discoveries in relation to a chemical which both companies produced. The Revenue refused to treat any part of the payments as allowable in. the Case I computations and on appeal the Commissioners mistakenly upheld the view that any part not ranking as a patent royalty would be disqualified as an annual payment.

### Accounting to Revenue for Royalties

In reversing this finding the Court said that the right to use trade-marks, names or designs could indeed be so closely linked with the user of a patent that a tribunal of fact might conclude that payments for such a right were merely incidental to the use of the patent. In a narrow sense such payments would also cover incidental rights such as the right to any improvement of the patent made by the grantors during the currency of the agreement and the right to advice or assistance as to how best to take advantage of the patent. In the absence of such a finding, however, any sum paid otherwise than in respect of the user of a patent would be allowable.

Subject to an important exception, the person by or through whom a payment of royalties is made is required to deduct out of it a sum representing the amount of the tax thereon at the standard rate in force at the time of payment. Having done so, he is then under an obligation to account to the Revenue, submitting to an assessment under section 170 on an amount equivalent to the gross amount of the royalties paid, or rather that part not covered by his own income for the year in which payment was made. To the extent of the deficiency no immediate relief is obtainable by the payer. Even future relief is available only where a business is carried on, by analogy with trading losses under section 342, and subject to the conditions that the royalties are paid wholly and exclusively for the purposes of the trade and have not been charged to capital or borne by some other person (section 345).

The important exception noted above concerns the case where a payer has sufficient income for the year of assessment in which payment is made to cover the royalties and any other charges on his income for that year. In such circumstances, section 170 does not operate and immediate relief may be obtained under section 169 which authorizes the retention of an amount representing the tax on the gross payment at the standard rate in force for the year in which the amount payable became due. The exercise of this right is not dependent on the level of income for the earlier year (where arrears are concerned) since the obligation to compare income with charges relates only to the year of payment. The payee, however, must accept deduction at the rates in force at the original due dates although where he is entitled to recover such tax from the Revenue the repayment would also be made at those rates (section 524 (3)). Nevertheless, the possibility of hardship exists where a payer would have benefited under section 160 had payments been made at the due dates but in a later year his income is insufficient to cover charges. In such circumstances the Revenue apply an extra-statutory concession whereby an allowance is made, in fixing the amount to be paid over under section 170, for the tax which the payer would have been entitled to deduct and retain if payment had been made at the due dates.

### **Profits Tax Position**

As regards profits tax, it is provided that the income tax principles explained above are not to be followed (Fourth Schedule, Finance Act, 1937). Instead royalties are admissible as deductions if laid out wholly and exclusively for the purposes of the trade (section 14, Finance (No. 2) Act, 1940). However, deduction is not permitted

of royalties paid to any person carrying on the trade, a description which includes the directors of a director-controlled company (other than whole-time service directors).

Where a royalty is paid in respect of the user of a patent for a period of two complete years or more, the recipient may elect for a reduction in his income tax and surtax attributable thereto as measured by a formula (section 472). The formula postulates a spread-back of the payment or payments at annual intervals (equal in number to the number of complete years of user, with a maximum of six). Thus, in the case of the minimum period, one-half of the amount actually received would be treated as having been received twelve months earlier.

In considering the tax treatment of the vendor of patent rights, it may be relevant to recall an observation by the Royal Commission to the effect that tax on the inventor who sells his patent outright, instead of receiving royalties upon it, seems to be intended to put him in the position of someone who follows the calling of merchanting the legal titles to his ideas, just as the author of a literary work is taxed on the sums which he receives on any sales of copyright. Certainly the suggestion that letters patent, by their terms, grant exemption from tax in respect of the receipts to which they give rise, whether in the form of income or capital, was rejected by the Courts in the two cases of Kirke v. Good and Kirke v. C.I.R. (26 T.C. 208), and is specifically negatived by section 512.

### **Capital Receipts for Patent Rights**

The sale of patent rights for a capital sum by a United Kingdom resident gives rise to Case VI assessments which are to be made in equal amounts for the year of sale and each of the five tax years following (section 318). At the vendor's option, however, the charge may be consolidated in the first year. Where a non-resident is vendor the position is reversed, assessments in a single amount being mandatory unless election is made to spread the charge forward. However, the application of section 170 (which is required in order that tax may be collected from a person within the jurisdiction of the administration) is related to the lump sum in any event, the election merely giving rise to appropriate repayments over the period. It may be noted in parentheses that in this case the paying agent must hand over the whole of the tax deducted to the Revenue, irrespective of his personal circumstances. Where the period of spread-over is interrupted by death,

partnership change or liquidation, the balance outstanding may either be dealt with in the year in which the event occurs or, on notice being given by the party interested, spread over the period of accrual that has already elapsed.

As has been indicated above in relation to royalty payments, the arrangements entered into by a trader may be so extensive that the consideration derived under them reflects the benefits of patent user to only a minor extent. In Jeffrey v. Rolls-Royce Ltd (41 A.T.C. 17) the company made agreements whereby overseas Governments obtained access to its fund of 'know-how' derived from research and the development of engineering techniques. The company granted licences to manufacture a specified product and undertook to supply the necessary information and drawings, to notify improvements, to instruct personnel in its own works and to lend its own staff to the licensees, who, in effect, were taught how to make use of the licences. Such agreements represented a development of the company's general manufacturing trade, and the lump sums payable fell to be included in profits on an equal footing with the recurrent royalties paid as such. This case was differentiated from Evans Medical Supplies Ltd v. Moriarty (36 A.T.C. 277; 37 T.C. 540) where the sale of 'know-how' represented the loss of a fixed capital asset. The distinguishing test to be applied is that laid down in British Dyestuffs (Blackley) Ltd v. C.I.R. (3 A.T.C. 532; 12 T.C. 586):

'Is the transaction in substance a parting by the company with part of its property for a purchase price or is it a method of trading by which it acquires this particular sum of money as part of the profits or gains of that trade?'

### **Problems of Royalties Paid Abroad**

The special problems which arise when royalties are paid abroad have recently been the subject of study by the Fiscal Committee of the O.E.E.C. (Fourth Report, 1961). The principle of taxation of royalties by the country in which the recipient is resident is one which was adopted in the tax convention with the United States (S.R. & O. 1946/1327) of which article VIII reads:

'Royalties and other amounts paid as consideration for the use of, or for the privilege of using, copyrights, patents, designs, secret processes and formulas, trade-marks and other like property and derived from sources within the United Kingdom by a resident of the United States who is subject to United States tax on such royalties or other amounts and not engaged in trade or business in

the United Kingdom shall be exempted from United Kingdom tax.'

Evidently it would serve no useful purpose in such circumstances for tax to be deducted by the payer and subsequently repaid to the overseas resident by the United Kingdom Revenue. Hence the latter are empowered to notify a payer not to deduct tax at source. Where, however, arrangements for gross payments are subsequently discovered to have been inappropriate then another notice may be given requiring deductions at the rate of 100 per cent so far as necessary to rectify the situation (S.R. & O. 1946/466). Such deductions (validated by Case VI assessments on the non-resident) are accountable to the Revenue in full. In either situation, the payer is not able to avail himself of the benefit of sections 169 and 170 and the Revenue therefore credit him with the tax which he could otherwise have retained (S.I. 1954/1366).

### Inadequacy of Double Tax Relief

It may be noted that arrangements similar to those entered into with the United States (which are, of course, reciprocal in character) have been made with European countries as follows:

	Statutory Instrument	Article on
Country	embodying the Convention	Royalties
Austria	1957/598	ΫII
Belgium	1954/487	$\mathbf{viii}$
Denmark	1950/1195	$\mathbf{VIII}$
Finland	1953/191	IX ·
France	1951/1388	$\mathbf{X}$
Germany	· 1955/1203	$\mathbf{VII}$
Greece	1954/142	${f VI}$
Israel	1947/2871 & 1950/751	$\mathbf{VII}$
Italy	Pending	
Netherlan	ds 1950/1196	$\mathbf{VII}$
Norway	1951/1798	$\mathbf{v}\mathbf{n}$
Sweden	1961/577	IX
Switzerlar		VII

As regards possible future agreements the O.E.E.C. Fiscal Committee report indicates that Luxemburg, Portugal and Spain would insist on the right to tax royalties at source at the rate of 5 per cent (Turkey specifies 20 per cent). The general pattern of agreements with Commonwealth territories provides for complete reciprocal exemption of royalties from taxation, but only the European agreements (Israel excepted) deal with the right to tax capital sums received on the outright sale of patent rights. This is allocated to the country in which the recipient is resident.

The inadequacy of double tax relief arrangements was the subject of comment in evidence before the Royal Commission. One important step

towards the elimination of hard cases was taken in the Finance Act, 1961, which extended the credit arrangements to include overseas taxes levied under the authority of a province, state, municipality or other local body. The anomalies which remain include the case of Government royalties or export taxes which cannot be equated with taxes on profits or income, a situation illustrated in Ashanti Goldfields Corporation Ltd v. Merrifield (13 A.T.C. 641; 19 T.C. 52).

It is against this background that the Revenue have recently re-examined the position where royalties or 'know-how' payments are received from abroad (104th Annual Report; statement, July 1960). On a strict interpretation of the law these may have their source in the United Kingdom (see, for example, *International Combustion Ltd v. C.I.R.* (11 A.T.C. 120; 16 T.C. 532)), but

by concession they are treated for the purposes of credit, whether under double taxation agreements or by way of unilateral relief, as income arising outside the United Kingdom except to the extent that they represent consideration for services (other than merely incidental services) rendered in the United Kingdom by the recipient to the payer. In the latter case, however, only the net amount of the payments (after deduction of any overseas tax borne thereon) need be included in the computation of profits for U.K. tax purposes.

Finally, it may be noted that if the owner of a right such as a patent, trade-mark or copyright is not engaged in any trade to which the right relates, but derives income by exploiting the right, the source of the income may be regarded for the purposes of credit as located where the right has its existence.

# Insurance and the Accountant-II

by DAVID WILLIAMSON, F.C.A., F.C.W.A.

### V. PROFITS INSURANCE ON NEW PLANT

OME accountants may be unaware that it is now possible to insure against the loss of profit that occurs when the completion date of a new plant is postponed, for a variety of causes. Bearing in mind the tremendous cost of plant extensions today – and the vital importance of their profit-earning results being at least up to the standard assumed when the extension was approved – there is a sound case for this type of insurance.

31. Accountants will readily appreciate the great importance of timing, with regard to all large capital expenditure projects. The timing of the expenditure

must be right with regard to:

(a) the development of the market for the product in question;

(b) the acquisition of the site;

(c) the structural programme,
with all its attendant delays and frustrations,
the engagement, transfer and training of
suitable management and labour, the provision of office services and the like – all
leading up to the final stage, viz.;

(d) the commencement of the 'pay off' period.

32. It is obvious that if the date of (d) is seriously postponed – for whatever reason – the whole of the capital expenditure to date will be, in effect, lying

The second part of a paper presented at the Summer Course in Cambridge of The Institute of Chartered Accountants in England and Wales. The date of Mr Williamson's admission to the Institute was misprinted 1948 for 1928 in last week's issue.

idle, representing a maximum burden on the organization and calling for a revision of all the planned financing arrangements.

- 33. By means of an advance profits insurance policy you can indemnify your company to much the same extent as in a consequential loss policy, viz. for loss of net profit, specified standing charges, and increase in cost of working for a stated indemnity period. Certain important provisos must be understood with regard to this form of insurance, as follows:
  - (a) the circumstances in which the policy will operate must of course be clearly set out: these may include loss or damage to suppliers' goods – machinery breakdown – non-arrival of imported plant due to marine or air perils – and other causes comprising actual loss of or damage to the items intended to form part of the project; note particularly that the policy would not under this heading cover delays due to industrial strikes, or to mere failure by subcontractors to adhere to delivery schedules;
  - (b) the period of insurance must be clearly defined and understood; this will normally be defined as commencing on the date from which it is planned to go into production;
  - (c) the scale of standing charges and net profit will necessarily be based upon estimates – we are dealing not with past performance but with planned future performance of a new works or extension – but on the other hand it is probable that the forecasted standing charges and net

profit will have been estimated in considerable detail when the proposals were originally submitted for sanction, and in the absence of significant new factors these estimates should be acceptable as a basis for this insurance;

(d) the premium rating is a matter for the judgment of the insurance company to propose; it is quite impossible to imagine a fixed scale in relation to so many different factors; it is obvious that the rate suggested will be higher where the insurer sees a real likelihood of failure to keep to the planned period of construction – and in this connection he will pay regard to the time margins allowed in the construction plan. Also, of course, he will consider the risk is worsened if the planned programme has to allow for very long delivery dates for important sections.

34. This section does no more than indicate the outline of this type of insurance – as a policy of this description is usually specially drawn up to the insured's requirements after a good deal of technical

investigation into the risk involved.

35. The industrial accountant should realize that this type of insurance may be of real value to his company, according to the development programme it may be facing – but he should appreciate at the outset the difficulties attaching to it, and above all that the negotiation of a rate is something that will require considerable study of the development scheme in its technical detail, by the insurance company or its consultants, before a quotation can be put forward. We think it normal to insure the physical assets of a factory – we can similarly insure the profits it is intended to provide.

### VI. EMPLOYERS' LIABILITY INSURANCE

36. It is difficult in a paper of this description to know how far to go with regard to the immense subject of employers' liability insurance. Properly speaking, it is a subject on its own — and a large one at that! No year passes without the law making important extensions to potential liabilities. In this paper I propose to stress only the aspects of the subject which seem to be of outstanding importance, particularly to the industrial accountant — and in doing this I shall be aware, and so no doubt will you, that large tracts of this most comprehensive subject have been left undiscussed.

37. For a start we must regretfully leave out any consideration of the historical development of the law on this subject – fascinating though that is. In passing, we may perhaps observe that few subjects are more closely related to the life and welfare of ordinary people – we seem in the last 130 years to have struggled through different phases of thought, from the extreme *laissex faire* of the early nineteenth century, to the 'welfare state' of today.

38. Employers' liability insurance as we know it today, dates from July 5th, 1948, because the National

Insurance (Industrial Injuries) Act, 1946, repealed the Workmen's Compensation Acts and made it unnecessary for employers to insure in respect of payment of workmen's compensation benefits.

39. We must begin with a definition: Employer's liability – in the most restricted sense of the term means the liability of the employer to pay damages to his employees for personal injuries which they have sustained in the course of their work.

40. You must appreciate as a fundamental that an employer may incur such a liability in more than one way:

(a) he has a personal liability if the injury is due to

his own act or default:

- (b) he has a vicarious liability if the injury is due to the act of one of his employees. Formerly what was known as the doctrine of common employment safeguarded the employer from claims held to be due to the negligence of a fellow employee; but this doctrine was abolished by the Law Reform (Personal Injuries) Act, 1948 and the position today is that the employer is held liable in cases of this description.
- 41. You should appreciate that the employer may be held liable under two distinct headings:
  - (a) He may incur a common law liability, in which case generally speaking, the employee has to prove negligence on the employer's part or on the part of a fellow employee.
  - (b) He may be held liable for a breach of statutory duty, which means a failure to observe one of the various duties imposed upon him by Act of Parliament – such as those relating to the fencing of dangerous machinery, and the like.
- 42. There is, therefore, a wide-ranging liability which may arise not only from the personal acts of the employer himself, but also from a faulty system of working, from the negligence of employees other than the injured person, from defective plant or premises, or from failure to comply with some statutory requirement.
- 43. Under the foregoing general headings there is, of course, a vast amount of detail in the form of:
  - (a) Case law, defining the employer's duty at common law;
  - (b) Statutory regulations, defining his duty as an employer to safeguard his employees at their work – these regulations varying, of course, according to the type of work being performed.
- 44. At every stage you will find points of controversy what is 'reasonable care' 'negligence' 'contributory negligence'? None but legal experts can attempt to expound these aspects of the subject but accountants will the more readily appreciate the importance of ensuring that the company is fully and expertly covered for its possible liabilities as an employer.
- 45. The premium cost of employers' liability insurance will depend very largely on the type of

industry - no cut-and-dried figures can be given and in many industries the cost will considerably exceed the fire premium. It is therefore particularly important to keep some kind of check upon this premium. The insurance company should always be consulted over this - in the case of large customers they will be able to supply details for the last few years, showing the premium cost on the one hand, and the total claims payable on the other hand; between these two figures there will be a ratio struck, and this ratio, over a period of years, will be the factor that largely controls the premium rate requested by the insurance company. In these calculations the figure shown for 'claims' must of necessity include estimates for claims notified but not yet settled - and these estimates, or reserves, will often be of substantial size and have a considerable influence on the 'claims to premiums' ratio. By the very nature of this type of insurance, once a claim has been notified it may be months, or even several years, before the final cost of settlement is known - and hence the need for making a reserve as soon as the claim is notified. The premium rates are normally quoted in relation to the claims experience over a period of the past five years which, of course, reduces the chance of distortion by year-end estimates of outstanding liability.

46. There is disquiet in some sections of industry at the mounting cost of employers' liability insurance, but it would not be fair to criticize the insurers: they must, after all, balance claims against premiums. A solution depends in part upon industry finding more effective means of limiting the number and seriousness of claims; the waste of time, labour and money caused by accidents is of serious importance to the company concerned, and also to the community as a

wцоје.

47. It is a simple enough matter for an accountant to compare the figures of his company's premium cost for the last few years, with the claims cost in these years; a ratio is struck, conclusions drawn, and negotiations as to premium rates entered into with the insurance company. But is this going far enough? Insurance costs have perhaps been too easily absorbed in the buoyant post-war trading atmosphere, but with greater pressure on profits, closer attention must now be paid to these. Quite often, one finds that increased employers' liability premiums are simply passed through the books without the production executives or other interested parties being properly advised and this is where the accountant can serve his company, by ensuring that these people are advised, and that appropriate remedial action is considered. If the premium cost, instead of being merged with 'insurance' in the company's accounts, were described as 'cost of compensating employees in respect of injuries and disease' I rather think it would receive more critical examination than at present.

48. It does not fall within the scope of this paper to discuss the pros and cons of accident or occupational disease prevention – but it does seem that it is on these aspects that industry must concentrate if

the cost of employers' liability insurance is to be reduced or even stabilized. In fact, in very large industrial units the financial director or chief accountant may well weigh up whether the scale of this expenditure – and the possible savings to be made – warrant the appointment of a safety officer. The sums that can be awarded as compensation by the Courts is not limited by statute, and there are awards given today as high as £20,000 for one individual; and although these heavy claims may be borne by the insurer in the first instance, their weight will in due course be felt in the scale of premium charged.

### VII. PUBLIC LIABILITY INSURANCE

49. The object of public liability insurance is to provide indemnity in respect of claims made by members of the public who have sustained personal injury or damage to their property as the result of negligence on the part of an individual or firm. Negligence can mean careless conduct or the breach of a duty to take care imposed by common law or statute. Generally speaking the onus of proving negligence is on the injured person or the owner of the damaged property, but there are cases where the circumstances of the accident are more consistent with negligence on the part of the defendant than of the injured party. In such cases the onus is on the defendant to disprove negligence. A typical example of this latter category is one where a plank was being lowered from a builder's scaffold and fell on the head of a passer-by. The builder by the very circumstances of the accident was presumed to be negligent, and being unable to prove otherwise was called upon to pay substantial damages.

50. Owners of businesses are liable not only for their personal negligence but usually also for the negligence of their employees, provided that in the case of accidents caused by employees it is possible to show that the accident arose out of and in the course of the employment. Even if an employee is acting against instructions the employer may still be held liable if the work which the employee was doing at the time of the accident was for the benefit of the employer's business. The possibility of claims for which the owner of a business can be held responsible therefore increases in direct proportion to the number of employees, and this factor is an important one for

premium purposes.

51. Since the last war there has been a steady growth in the volume of public liability insurance transacted. This is probably due to several causes such as the increased tendency on the part of the public to make a claim whatever the circumstances of the accident, and the steps taken by trade unions to press claims on behalf of their members. There is also the tendency of the Courts to find in favour of the plaintiff, with the result that there have been more and more extensions of responsibilities towards third parties. Another factor which has been responsible for an increase in the number of public liability claims is the Legal Aid and Advice Act, 1949. This

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Act has provided legal aid for many persons whose claims under earlier conditions would not have been worth pressing. Many such cases are now able to go forward free of cost to the claimant. Whilst, therefore, public liability insurance is not compulsory, and has not been so much affected by specific legislation, as in the case of employers' liability and motor insurances, the need for it is obvious.

52. It is a class of business which is still in the process of development, with the result that the wording of public liability policies varies considerably as between insurers, probably more than in any other section of insurance business. For this reason it is essential to pay particular attention to the exclusions which appear in this form of policy. These exclusions are to a great extent accounted for by the effort to use a single form of policy for a variety of trades. Where required by reason of the trade, it is usually possible to have some of the exclusions deleted. Some risks, however, are excluded because they are normally dealt with by other forms of policy, e.g. passenger lifts, boilers and mechanically propelled vehicles. A common exclusion is liability arising from goods manufactured, repaired or supplied, but I have dealt with that aspect separately under the heading of products liability insurance.

3. An important point is to be sure that the public liability policy covers all the firm's operations away from the main premises. For example, a manufacturer may be installing some of his products in other firms' premises. There is always considerable hazard in carrying out work elsewhere, and the insurer will expect to be supplied with full details so that he can obtain a suitable premium. Another aspect of this work away is that it may be performed by subcontractors. Work carried out by subcontractors is normally excluded from cover, and firms habitually using subcontractors should therefore ensure that their policies are extended to give automatic cover for their contingent liability in respect of the negligence of subcontractors. A subcontractor is directly responsible for his own negligence, but as the main contractor has an overall responsibility he will usually be brought into the matter at the outset, even though eventually he may be successful in passing on the liability to the subcontractor.

54. Even if there is no work away in the ordinary sense, there may still be a potential liability in respect of the negligence of individual employees whilst visiting other premises, as, say, technical representatives. A policy should not therefore be accepted if it restricts liability to accidents occurring only at stated premises. As a further development of this point, attention should be paid to the territorial limits of the policy; many firms today have representatives travelling to all parts of the world, whereas the normal public liability policy restricts cover to accidents occurring in the United Kingdom.

55. Probably the most important exclusion in the public liability policy is that which excludes 'liability

which attaches by virtue of an agreement but which would not have attached in the absence of such agreement'; in other words, the exclusion of any special liability assumed under contract. Much of the work undertaken today is subject to special conditions of contract which appear either in the formal contract or as printed conditions on the order form. Some of them do not impose any additional liability, but there are many in use which enable the customer to transfer to the contractor or the supplier all liability for accidents occurring in connection with the work which is the subject-matter of the order. It is quite legitimate for a firm to adopt this procedure, and it is difficult for a contractor or a supplier to refuse to accept the condition as usually it would mean the loss of the contract. Contracts involving these special conditions should therefore be notified to the public liability insurer, with details of the work and a copy of the appropriate conditions. It should then be possible to have the public liability policy extended to cover the additional liability, in return for an extra premium.

56. An aspect which is likely to be overlooked where a public liability policy has been in force for some years, is the limit of indemnity. The amounts awarded as damage for personal injuries have increased to the extent that it is now possible for a single individual to be awarded £20,000, or even more. Also the value of property has increased enormously. In spite of this, many policies still carry maximum indemnities of only £25,000 or £50,000. These limits are clearly inadequate under today's conditions, and should be raised.

### VIII. PRODUCTS LIABILITY INSURANCE

57. Almost every business enterprise exists in some degree at the risk of being sued for damages allegedly caused by its products: damage that is, to property, or injury to persons. In consequence, the field of products liability insurance is extremely wide. This type of insurance is moreover fairly new, except in certain industries such as the manufacture of chemicals, cosmetics, fur goods and food products – where it has long been the practice to insure this risk.

58. You should particularly note that liability may arise upon a far greater scale than is apparently warranted by the size or value of the product: thus a defect in a small unit of an aircraft can be held to have been the cause of the entire loss of the aircraft and its crew and passengers, plus heavy damage to property caused by the crash. Nor is such risk limited to the more obviously spectacular examples associated with the aircraft or atomic research industries; a defect in a domestic article such as an oil heater may be held to have been the cause of a disastrous fire. And again, liability may arise not so much on account of a defect in the article itself, as due to the article being sent to a wrong address or otherwise falling into the hands of someone who is unaware of potential dangers that would have been known to the intended user; indeed it has been held that if a seller sells a

thing dangerous in itself he owes a legal duty not only to the buyer but to all persons who might reasonably be contemplated to be likely to be placed in danger thereby.

59. The trend today makes it more necessary than ever to insure this risk – because we are all of us steadily becoming more 'claim conscious' in our

attitude to everything we buy.

60. The general public liability policy excludes cover against injury or damage arising in connection with goods sold or supplied – and often also goods altered, repaired, worked upon, treated or processed. If the insured wishes to cover these risks he can either have the foregoing exclusions removed from his public liability policy, or he may take out a separate products liability policy: the usual practice is to include the risk in the general public liability

policy.

61. When products cover is effected for the first time, you should consider whether the cover should be made to include accidents arising from products already in circulation. The products liability policy covers legal liability arising from defective products after they have left the control of the manufacturer and are no longer in his custody. Thus months or even years may elapse before a claim arises; and you could easily have the position where a serious claim in respect of a product made some years ago could neutralize the effects of any advertisement campaign based upon, say, recently introduced quality control. It is advisable to ask for cover on the basis of 'accidents occurring during the period of insurance'. This will automatically provide cover in respect of goods already in circulation - and also has the advantage that you can subsequently transfer to another insurer without any break in the cover-if that course were to become desirable.

62. There does not seem to be a standard form of wording in use – but certain general principles are

already accepted, as follows:

(a) for a claim to be successful there must have been an accident – and the accident must have caused injury to persons or damage to a third

party's property.

You will see that this principle cuts out the possibility of a claim arising merely where, for instance, a customer claims that the goods supplied were below standard or failed to come up to expectations as regards performance. If these particular claims were to be admitted the potential risk assumed by the insurer would be very much greater – indeed the risk might be incalculable by ordinary means, particularly where the 'performance' complained of related to failure after several years' usage; or where a suspected defect in an aircraft caused a whole fleet of similar craft to be 'grounded' for several weeks; furthermore, the premiums of the more efficient manufacturers would, in effect, be subsidizing the producers of sub-standard goods

Note: There is room for controversy as to what constitutes an 'accident': numerous Court decisions

have dealt with the subject – and in a paper of this description it is obviously impossible to do more than indicate that for the policy to operate, the bodily injury or the damage caused to property must be 'accidental'.

(b) The insurers do not undertake to bear the cost of replacing or repairing the product complained of.

The principle here is that the quality of goods supplied, and their ability to perform the function for which they are designed represents a trading risk which cannot be made the subject of insurance. But you should appreciate that if your company's product fails to come up to specification, or fails in its function, the company may nevertheless be held liable for damages or compensation; and this, even though no accident has occurred.

Note: As the policy excludes indemnity for the cost of repairing or replacing the defective 'goods', you must recognize that it may be difficult to define the limits of that exclusion: take for example the case where the jib of a crane is defective, and collapses and in its fall strikes the tower of the crane and causes the whole structure to be unsafe so that it is subsequently demolished; or in the case where a defective steeringwheel causes a car to crash; what are the 'goods' whose repair or replacement are excluded under the policy? The whole crane, the whole car - or just the parts whose defect caused the accident? Opinion leans towards the exclusion applying to the whole product, i.e. the whole crane or the whole car - but you will appreciate that in many cases there will be room for argument, with an important bearing upon the extent of cover actually provided.

- 63. As a generalization you will expect to find that the insurer will insist upon the following limitations of his liability:
  - (a) a maximum limit in respect of any one claim;

(b) a maximum limit in respect of any one period of indemnity, i.e. the policy year.

- 64. In addition he may seek to impose territorial limits upon the indemnity provided dependent, of course, upon the precise nature of the risk, and the medium through which the goods are marketed abroad.
- 65. Premium rates are usually based upon turnover, and will vary according to the limit of indemnity. The normal method is to apply a rate per cent or per mille on an estimated turnover, and adjust the premium annually to conform to actual turnover. Thus, a return of premium would be made where the actual turnover did not amount to the estimated figure, and an additional premium would be charged where the 'actual' exceeded the 'estimated'. The turnover basis is not suitable for every trade, but a satisfactory unit can always be agreed upon.

### IX. ENGINEERING INSURANCE

66. There is an interesting history to the subject of engineering insurances – the *servicing* aspect of the insurance developed before the actual *indemnification* aspect, whereas the fire and certain other types of

insurance it has always been the indemnification aspect that has led the way.

67. The real beginning of engineering insurance can be said to have been the development of steam as a source of power. In the early part of the nineteenth -century the use of steam became widespread and was accompanied by a serious loss of life through boiler explosions - because at that time there was no recognized standard of maintenance and testing that applies today to boilers and all other mechanical uses of steam. Accordingly, the next development was the formation in 1854 of the Manchester Steam Users, Association, whose members agreed to have periodical inspections of their steam plant, and to act upon the recommendations as to repairs and safeguards that the Associations' engineers might submit. This was, in effect, an inspection service only, but five years later came the first boiler insurance policy, issued by the Steam Boiler Insurance Company; this lead was followed in a further five years by the Manchester Steam Users' Association introducing a monetary guarantee to its members, which, in effect, provided an indemnity in the event of explosion or mechanical failure of a boiler.

68. Other insurers then came into the field, but the practice continued under which the insurer undertook to carry out the required inspections and to prepare the necessary reports - on condition that the plant owner placed his insurance with them. By this time certain statutory obligations had been enacted, and the new insurance development enabled the plant owner to meet his statutory obligations by employing what became a specialist inspection service - and at the same time it indemnified him against possible legal liability for loss of life or damage to property caused by explosion or other forms of mechanical failure. This practice spread to other types of machinery such as gas and oil engines, electrical apparatus, lifts and cranes.

69. The insurance today can be said to fall into

four groups.

(a) boiler, where the main risk is explosion;

- (b) machinery, where the main risk is mechanical breakdown;
- (c) lifts, cranes and hoists, where the main risks are mechanical breakdown and damage to the insured plant due to toppling over, derailment and similar external causes;
- (d) miscellaneous, which covers various consulting and advisory services provided by the insurers and also time loss insurance, i.e. compensation for loss caused by stoppage of work consequent upon a breakdown of the power plant.

70. These can be briefly described as follows:

- (a) Boiler. The normal policy will provide cover for:
  - (i) damage to the boiler itself, to other specified plant, or to the insured's surrounding property;

(ii) liability for damage to property belonging

to a third party;

(iii) liability for death or injury caused to non-

employees arising as a direct consequence of the explosion or collapse of the boiler. or (in the case of (ii) and (iii) only) due to fire arising therefrom.

(b) Machinery. This type of insurance can be arranged for air compressors, steam-engines, pumps, oil engines, electrical plant, etc. The

risks normally covered are:

- (i) the breaking of any part whilst in operation, causing immediate stoppage and involving repairs before work can be resumed;
- (ii) damage to the machinery, caused by the above or by mechanical or electrical defects;
- (iii) damage to property caused by flying fragments, etc.
- (c) Lifts, cranes and hoists. The normal policy will cover:
  - (i) damage to the insured plant arising from internal electrical and mechanical defects;
  - (ii) damage to the insured plant due to topling over, storm, tempest, derailment and similar external causes;
  - (iii) legal liability for third party personal injuries and damage to property of third party (other than goods being lifted) arising out of the use of the crane, etc.

with optional extensions to cover:

(iv) accidental damage to goods being lifted;

(v) accidental damage to the surrounding property of the insured, arising out of the use of the crane, etc.

(d) Time loss. This type of insurance can be arranged to provide a specified amount of indemnity for each full day's work lost due to mechanical breakdown of the power plant. It is therefore similar in some respects to loss of profits insurance - but without reference to the actual figures of turnover or of standing charges.

It is also possible to provide for a proportionate indemnification in respect of a partial

stoppage.

71. The accountant must appreciate that today the subject of regular inspection and maintenance of plant is largely governed by legislation. It is unnecessary in this paper to specify the various Acts of Parliament concerned - full details can be obtained from the specialist inspection department of the leading engineering insurance companies whose business it is to observe the obligations laid upon the insured by these statutory regulations, and whose interest lies in ensuring as far as possible that the accident rate is kept to a minimum.

72. The wide subject of engineering insurance has so many branches, and is influenced by so many technical considerations that one can give no more than a general description in the foregoing paragraphs. It is always desirable to seek from your broker advice on your company's engineering insurance requirements. (To be concluded.)

# Weekly Notes

### THE INSTITUTE'S OXFORD COURSE

THE Oxford Summer Course of The Institute of L Chartered Accountants in England and Wales assembles at Christ Church and Pembroke College next Thursday afternoon and continues until Tuesday morning, September 18th. This will be the sixteenth summer course at Oxford and the attendance will be the largest ever - over 250 members will be present. In addition, the following distinguished guests from overseas are attending: Mr G. C. Tootell, F.C.A. (AUST.), President, The Institute of Chartered Accountants in Australia; Mr D. S. Cox, M.COM., F.P.A.N.Z., President, New Zealand Society of Accountants; Mr Howard I. Ross, c.a.(canada), Second Vice-President, Canadian Institute of Chartered Accountants; Mr S. J. Walton, General Registrar, The Institute of Chartered Accountants in Australia, and Mr A. W. Graham, B.COM., F.R.A.N.Z., Secretary, New Zealand Society of Accountants.

The course will open with a short welcome by Mr Donald V. House, F.C.A., a Past President of the Institute, in the absence - through International Congress commitments - of the President, Mr Percy F. Carpenter, F.C.A. A short talk on Christ Church and Pembroke College will then be given by Dr J. E. A. Mason, M.A., Librarian-elect of Christ Church. Three papers are to be presented at the course, the subjects and speakers being as follows: 'The problems of the smaller practice', by Mr R. W. Smith, O.B.E., T.D., F.C.A., of Day, Smith & Hunter, Chartered Accountants; 'Investment in stocks and shares', by Mr A. G. Touche, F.C.A., of Touche, Ross, Bailey & Smart, Chartered Accountants, and 'The training of accountants for industrial responsibilities', by Mr G. W. Searle, D.S.C., F.C.A., general manager, Finance and Accounts Department, British Petroleum Co Ltd. Each speaker will introduce his paper at a session of half an hour's duration and discussion in groups will follow. In the evening, the speaker, in general meeting, will answer questions raised, and afterwards group discussion will continue. Two sessions of particular interest will be the informal talks on subjects of their own choosing to be given by Mr Howard I. Ross and Sir Edmund Compton, K.B.E., C.B., Comptroller and Auditor-General, on the Sunday morning and Sunday afternoon respec-

As is customary, the afternoons will be free and visits have been arranged to the establishments of A. C. Nielsen Co Ltd, University Press, Oxford University Computing Laboratory and also to

Blenheim Palace. A golf competition will be held at Frilford Heath Golf Club.

The course will conclude with a Guest Night Dinner, presided over by Mr House, when the guests will include officers of Christ Church and Pembroke College.

A photograph of some of the personalities at the course will be published in our issue of September 22nd and we look forward to reproducing the papers presented.

## THE ASSOCIATION'S EXAMINATION RESULTS

THERE were 3,498 candidates for the June 1962 examinations of The Association of Certified and Corporate Accountants of whom 1,201 were success-

ful - fourteen passing with honours.

In Section II of the Final there were 392 candidates of whom ninety-seven (24.7 per cent) passed, the First Place and Prize being won by Mr T. C. Pasola, of London; Second Place was won by Mr M. Ray Smith, of Wokingham, and Third Place by Mr A. McNamara, of Gravesend. In Section I a total of 580 candidates sat, of whom 138 (23.8 per cent) were successful. The First Place was won by Mr R. C. Dendy, of London; Second Place by Mr F. W. E. Brown, of Marlow, and the Third Place by Mr H. A. Rose, of Basingstoke.

There were 824 candidates for Section II of the Intermediate examination, of whom 401 (48.7 per cent) were successful, the First Place and Prize being won by Mr H. J. Byrne, of Dublin; the Second Place by Mr R. Green, of Wolverhampton, and the Third Place by Mr J. H. Mawhinney, of Dundee. In Section I there were 1,555 candidates of whom 506 (32.2 per cent) passed, the First Place and Prize being won by Mr D. J. A. Sievewright, of Aberdeen.

In the Preliminary examination, there were 147 candidates of whom fifty-nine (40·1 per cent) passed.

The names of the successful candidates in Section I and II of the Final examination, together with a summary of the complete results, appear elsewhere in this issue.

### SERVICES FOR SCOTTISH MANAGEMENT

A BOOKLET has been prepared by The Institute of Chartered Accountants of Scotland called Services for Scotlish Management.<sup>1</sup> About 2,500 managing directors and over 1,000 chartered accountants were sent copies of this booklet last week throughout Scotland.

Referring to the booklet at a luncheon given in Glasgow, the President of the Board of Trade said that the booklet followed a recommendation in the Toothill report on the Scottish economy which included among its recommendations one urging management to make greater use of the extensive

<sup>&</sup>lt;sup>1</sup> Price 2s 6d post free from the Institute's Offices, 27 Queen Street, Edinburgh.

advisory services available. The President said that he drew two conclusions from the booklet. The first was that there is an increasing need for better communication between management and those bodies which have specialized information to offer. The second was that this information was of real help in dealing with management problems.

The booklet covers the activities of fifteen organizations operating in Scotland and it is equipped with a useful index. The pamphlet is attractively printed and laid out with a format to give busy people an easy

method of reference.

# INSTITUTE OF ACTUARIES WIDENS MEMBERSHIP

MEMBERSHIP of the Institute of Actuaries is to be made available to those who are engaged in the investment field, but who may not wish to become qualified as actuaries. The Institute has announced its intention to issue on request a special certificate to those who have passed its Preliminary examination in mathematics, Intermediate examinations in statistics and compound interest, and Associateship and Fellowship examinations in finance and investment. Although the certificate will not qualify holders as actuaries, they will, as members of the Institute, be bound by its code of professional conduct.

Tuition will be provided by correspondence courses (supplemented by discussion classes) as an integral part of the profession's extensive existing training arrangements. Those who have obtained the certificate will be given full credit for the subjects in which they have passed if they should decide to proceed with the further examinations required for full Associateship or Fellowship of the Institute. Details may be obtained from the Secretary of the Institute at Staple Inn Hall, Holborn, London WC1.

### CONFERENCE ON EXECUTIVE SALARIES

IT is well known that there are very big differences in the salaries paid to senior executives for comparative degrees of responsibility. This is partly due to the fact that salary arrangements at this level are very much a matter of negotiation for the particular case under consideration and also because such arrangements are by tradition confidential. In this country it is certainly true that there is no market price for a particular level of executive ability.

A detailed study of such salaries is to be made by Associated Industrial Consultants Ltd by means of a national survey covering, it is hoped, some five hundred firms. A questionnaire with ten headings is to be circulated and the answers analysed by size of company and region. The investigation will include fringe benefits. The key to the investigation is to be a breakdown into clearly defined categories of responsibility covering the range of executive salaries between £5,000 and £1,000 per year.

The results of the survey, which is confidential, will be made available to those companies taking part in time for the traditional annual salary review which most companies undertake at the beginning of each calendar year. Incidentally, if an upper limit of £5,000 is fixed the most serious imperfections in the labour market at the highest levels will be missed out.

A conference is to be arranged in October to establish a scale of salaries. The conference will be restricted to sixty representatives of firms employing between 1,000 and 1,500 people.

### A EUROPEAN MONEY MARKET

An article in Barclays Bank Review for August draws attention to the extent to which a genuinely harmonized European money market has already become a reality. While the author considers that it is wholly desirable that long-term capital should flow from areas where it is abundant and relatively cheap to those where it is scarce and dear, certain dangers are seen in the movements of short-term funds, particularly in connection with what are known as Euro-dollars, of which the amount outstanding at the end of 1960 may have been of the order of \$2,000 million.

Some of these large dollar balances maintained in private accounts are switched into local currencies and, for example, the resulting sterling used in an investment in the short loan market. The sudden withdrawal of an appreciable part of the foreign money might have serious effects on the domestic capital market, and if the exchange risk has not been fully covered, on sterling and the Exchange Equalization Account. This is, however, a special problem of a gradual internationalization of the money and capital market which, it may be hoped, will continue in the interests of international liquidity and the removal of remaining restrictionist pressures.

### CARTELS AND THE COMMON MARKET

THE latest broadsheet¹ published by P.E.P. examines the rules governing competition and monopolies in the Treaty of Rome and the first regulations putting them into force. The general conclusion is reached that if Britain joins the European Economic Community some strengthening of British restrictive practices legislation will be required. The author considers, however, that the differences between Britain and the E.E.C. in this respect are in fact less than would appear at first sight, because the method in which restrictive agreements are examined under British law increases the strictness of the latter. The broadsheet is likely to be of considerable interest to British industrialists whether or not Britain joins the Common Market, since sole

<sup>&</sup>lt;sup>1</sup> Cartel Policy and the Common Market, Political and Economic Planning, 16 Queen Anne's Gate, London SW1. Price 7s 6d.

agency agreements between United Kingdom exporting companies and European selling organizations, for example, are covered by the regulations implementing the Rome Treaty.

### CHANGE IN CO-OPERATIVE DIVIDEND POLICY

THE London Co-operative Society has announced this week two important changes in its traditional dividend policy. What this society does today, others might do tomorrow.

At its 170 self-service shops, the traditional dividend will be replaced by price cuts on a significant scale. At counter-shops, the dividend will be raised. It has guaranteed to raise its dividend at these shops

from 4d to 6d in the pound. It is therefore guaranteeing a higher dividend ahead of its trading results being known – an aggressive and confident step. The President of the Society has said: 'We are not going to be undersold by any grocer in any area'. It was indeed as recently as July that this Society announced that it would sell according to 'local High Street conditions'.

Formal intimation has now been given that one of the largest and most powerful co-operatives will fight the supermarkets and self-service chains on their own ground. It has risked cutting its savings on members' share-books, a major source of long-term capital for development. The step could, however, announce a new era of risk-taking and enterprise in co-operative management.

# This is My Life . . .

by An Industrious Accountant

CHAPTER 136

Our auditor, of many years standing, told us recently that he was going on a trip abroad and would consequently miss his annual chat with our directors when his report was considered. A partner would deputize for him, he said, and would do his best to explain things to us. I expressed polite regret and murmured deprecatingly that, of course, no one could replace years of specialized knowledge etc.

I was thinking of one of those earlier meetings which he attended many years ago. There he sat, intense and dedicated, his high-nosed countenance concentrated with the effort to make mathematical mysteries clear to us amateurs. Perhaps at the time I was a little biased against him. I was conscious of the desirability of the profession showing up in the best light and somewhat intolerant of his old-fashioned approach.

He went over his ten-page report on the year's accounts with meticulous care; three-quarters of it comprised voluminous analyses of various items in the profit and loss account and balance sheet. The directors listened with grave attention; polite explanatory comments circulated. Surely, I thought, he must know that they'd examined all these figures long before; he was dealing with transactions in a year finishing nearly four months ago. In fact, he was well aware of it, none better; he was simply following the time-honoured, standardized procedure of 'reviewing the accounts'.

He indicated delicately the need to amend the balance sheet and his listeners stiffened to attention. It was now desirable, he said, that we should deduct current liabilities from current assets to show the net liquid position clearly. The chairman asked Why? and was told it was the newest approach; he sat back unenlightened.

The auditor referred to the distinction between provisions and reserves, and expounded at some length on general commitments and specific accruals. I recalled going over the same theoretical ground with the directors long before. They were then cheerfully disinterested, once they got the general drift; their reaction was that it was a nefarious accountancy gimmick designed to alarm and confuse the uninitiated. Their attention languished.

Our chairman, sunk in a pleasant post-luncheon lethargy, was thinking of his speech at the forth-coming regimental reunion dinner. Provisions were a problem for the commissariat, he reflected, but reserves – ah, that was different. He broke in alertly: 'Jolly well right, by Jove. Adequate reserves vital, what? Never forget Jerry's big push at Amiens in 1918; not even a squad in support. We threw in orderlies, cooks; as my batman said . . .'

It was quite a good yarn; it was also interminable; he rode through Loos and Kut before he finished. By then there was a general disinclination to refer again to reserves of any nature. Our auditor had listened with his usual courtesy, though his nose occasionally twitched with impatience. He passed on to consideration of the declaration of dividend and of describing our profit as 'shareholders' surplus'. Whether we should say '4 per cent actual' or 'at the rate of 8 per cent per annum' seemed important to him; he developed the pros and cons exhaustively.

We stayed on this lofty level for the rest of the meeting. Believe it or not, he seemed quite oblivious to the more mundane trading problems that were currently contributing to the chairman's grey hairs. Going out, I overhead our managing director mutter resignedly something about 'a typical accountant', and I felt annoyed.

But all that, as I have said, happened some years ago; our auditor's deputizing partner is due to visit us next week; I wonder how he'll behave.

# Finance and Commerce

### **Avana Bakeries**

EXTRACTS from the report and accounts of Avana Associated Bakeries Ltd are the subject of our reprint this week. This company enjoys the benefit of a long association with Marks & Spencer. 'We have shared in the expansion of their food sections', says Mr I. R. Rees, Avana's chairman, 'and remain their largest cake supplier.' Turnover reached a new record but 'the momentum of sales increases tended to slow over the year'; however, this was more than offset by improved working methods which resulted in a 15 per cent increase in profits, subject to taxation, compared with a 10 per cent increase in sales - the 10 per cent being 'substantially due' to the Marks & Spencer connection.

Expansion has gone hand-in-hand with capital investment. The balance sheet shows the effect of a rights issue during the year of  $f_{0.50,000}$  of 1s Ordinary shares at qs each on a one-for-six basis, the major part of the new money going into the share premium account. And as so often happens in such circumstances, share premium is being moved up into capital account by a capitalization issue on the basis

of one new share for every ten held.

Expansion has been particularly marked in the jam-making side of the business run by the subsidiary, Ledbury Preserves (1928) Ltd. Mr Rees points out in his statement that, nationally, sales of jam have been declining but the Ledbury factory has moved against this trend and over the past ten years has nearly doubled output and sales. In the year under review, jam sales were up 32 per cent, the factory being 'fortunate to secure a valuable contract to supply Marks & Spencer'.

### Piped Egg

The whole field of food production of this nature has, in the years since the war, become a highly-organized and mechanized business. Nowhere can this be more clearly apparent, it is imagined, than in Mr Rees's review. For instance, at Ledbury, apart from the achievement noted above, or perhaps because of it, a new production line for specialized types of jam was expected to be working by the end of August; an automatic tart production plant at Dowlais was undergoing test runs; at Rogerstone, a new double swiss roll plant was on order; and on land previously owned by the company, a supplier had built a factory from which processed and pasteurized egg could be piped to the Rogerstone factory as required.

### Escape from the Past

EXPERIENCE has shown that a simple, straightforward capital structure is often better in the end and it is interesting to see an example of escape from the complications of the past. The company concerned

is United Gas Industries Ltd, an amalgam of a number of businesses engaged in the manufacture of gas and electricity meters, meter testing equipment, gas cookers, fires and water heaters. It is now putting straight a capitalization which was fashionable in 1929 when it was registered but has since been

proved to have its disadvantages.

The position to be dealt with concerned £638,591 in 7 per cent Li Cumulative Preference shares, £778,699 in Li Ordinary and £27,295 19s in 1s Deferred shares. Preference and Ordinary were entitled in that order to 7 per cent cumulative and 10 per cent noncumulative, respectively, the remaining profits belonging 50 per cent as to Ordinary and 50 per cent as to Deferred. In a winding-up, the three classes were entitled to repayment in order of seniority, with dividend arrears in the case of the Preference; remaining assets going 50-50 to the Ordinary and Deferred.

Mr H. H. Bates, the chairman, in his statement with the accounts to March 31st last, pointed out that the existence of two classes enjoying different rights in the equity tended to create a conflict of interests and added that though the board had no major project in mind, the existence of the two equity classes prevented expansion by acquiring interests in other companies except for cash.

### Two-pronged Equity

Simplified, the capital reorganization first gave an extra ½ per cent to the cumulative preference, raising the dividend to  $7\frac{1}{2}$  per cent, as a compensation for certain variations in their rights. Then came the most

important item -- the two-pronged equity.

The existing Ordinary and Deferred capital was converted into equivalent nominal amounts of 10 per cent Non-Cumulative Preference to preserve the ordinary's preferential right as to earnings and as to capital on a liquidation, and of the deferred as to capital in a liquidation. Then, 2,240,000 new 5s Ordinary shares were issued by way of capitalization of reserves, one-half going to the existing ordinary and half to the existing deferred.

Mr Bates pointed out that 'any distribution of profits to existing ordinary and deferred by way of dividends on the new ordinary, after the payment of the non-cumulative 10 per cent second Preference dividend equivalent to 10 per cent on the old ordinary, will consequently be received in the same proportions in which such distributions are shares at present'.

What the capital fashion of the 1928-29 boom did, of course, was to create a very highly-geared class of shares and the prospect it carried of a market valuation many times the nominal share value. The Ordinary dividend for the year to March 1962 was 13½ per cent and the Deferred 100 per cent. Within the last ten years, it has been as high as 200 per cent.

# AVANA ASSOCIATED BAKERIES LIMITED AND SUBSIDIARY COMPANIES CONSOLIDATED BALANCE SHEET as at 31st March 1962

Balance Ara 13 tt Ara 13 tt Ara 13 tt Ara 13 tt 162	43,064		£2,006,060
Depreciation E written off a written off a co date	398,808 212,433 402,637 143,953		4
At Orlustion D or Cost (Note 2)    642,689   643,689   641,084,208    61,084,208			
nenties	LICIES	,	•
aschold Propy y and Equipm	LIFE PO IC—C27,876) SETS Set (less Pro- Vance	$\left\{ Directors. \right\}$	
FIXED ASSETS Freshold and Leasehold Properties Plant, Machinery and Equipment Motor Vehicles TRADE INVESTMENT (Unquoted) At Cost	(Surrender Value—£27,876)  CURRENT ASSETS Stocks Stocks Sundry Debtors (less Provisions) Payments in Advance Deposit Cash at Bank and in Hand	IVOR R. REES JULIAN S. HODGE	
£ 1,385 1,510 1,510	366,429 197,854 196,082		
1st April 1961 2322 667,920 ' 4,200	33,394		£1,465,879
			101
Authorised Fully paid 150,000	253,830 1,335,853 82,200 7,423	280.584 483.	£2,006,060
Authorised 150,000 850,000 £1,000,000 437,697 144,326		415,978 77,248 77,248 77,248 77,748 77,748 77,748 77,748 77,748 77,748 77,748 77,748 77,748 77,748 77,748 77,748 77,748	
ASSOCIATED  of £1 each	subsidiary	d Charges  10UNT. 41,055  g year less 396,442  1437,697  roperties are as valued with additions at cost. less disposals. At valuation 37 d January 1948 with additions at cost, less disposals. At valuation 37 d January 197 with additions at cost, less disposals. At valuation 38 d September 1917 with additions at cost, less disposals.	
ANA ASS hares of £1 ote 1)	: : Z:	cd Charges   ng year less  read the sar with addition with addition with addition at 1917 and 1900 and 1917 and	
ITED STILL OF AV. ITED STILL each Of I/- each VES CCOUNT—(N	z : ኒ : ଞ	in Lilian  and Accru  C.  C.  Charles of the second of the	
SHARE CAPITAL OF AVANA ASSOCIAMA RAKENIES LIMITED 7%, Cumulative Preference Shares of £1 each Ordinary Shares of 1/- each	FUTURE TAXATION Income Tax 1962/63 MINORITY INTEREST COMPANY FUTURE STATEST	COUNTRIES THE LILIES  Sundry Creditors and Accrued Charges  Taxation  Dividends less tax  I. SHARE PREMIUM ACCOUNT.  At a John December 1938 with additions at cost. Plant, Machinery, Equipment and Motor Vehicles are at valuation or cost, as follows:  Plant, Machinery, Equipment and Motor Vehicles are at valuation or cost, as follows:  Plant, Machinery, Equipment and Motor Vehicles are at valuation or cost, as follows:  A Co. Ltd.:  B. Jones, Dickinson  A Co. Ltd.:  Commitments outextanding, not included in these accounts, are estimated at £105,730 (1961—£66,804).  A Subsidiary Company may have to contribute £25,000 to the cost of a new sewage works.	
1	EVEN Unapp FCTC Incom COOM	2	
11 1961 150,000 300,000 0 41,055 144,323	88.190 GJ. 90	411,188 50,659 75,108	121
1st April 1961 £ 150 300 450,000 — 41 185,378 — 44	204,408 839,786 81,700 7,438	536,955	£1,465,879

### AVANA ASSOCIATED BAKERIES LIMITED AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account for the 52 weeks ended 31st March 1962

£       £	! weeks to 4.1961																	5	2 weeks 31.3.19
174,619	£	£															£	£	£
1,448	294,489		Trading Profit	of the Grou	p befo	re ch	arging 1	the am	ounts	set out	below					••			327,4
Deduct:	630		Dividends on	Trade Invest	ment							••							
Deduct:	1,448		Interest Recei	vable	••	••	••	••	••	••	••	••	••	••	• •	••			12,6
Emoluments of the Directors of the Parent Company from all companies in the Group:—   23,995	296,567																		340,
Formal   Companies in the Group:			Deduct:						,							•		•	
23,995 As Executives 27,088  2,600 As Directors 2,600  26,995  1,822 Audit Fees and Expenses 1,823  1,821 Audit Fees and Expenses 1,823  3,787  1,822 Audit Fees and Expenses 1,823  76,216  20,351 Closses less Profits on Disposal of Fixed Assets 1,831  76,216  220,351 GROUP NET PROFIT FOR THE S2 WEEKS 261,  Deduct:  Taxation based on the Profits for the 52 weeks:—  33,710 Income Tax 36,050  24,900 Profits Tax 36,050  108,610 I21,315  Less:  2,168 Overprovision last year 1,833  108,442 I19,462  273 Minority Shareholders' Preference Dividend 273  Minority Shareholders' Preference Dividend 273  Minority Shareholders' Preference Dividend 223  4,339  Deduct:  Net Dividende paid and proposed in respect of the 52 weeks ended 31st March 1962:—  Net Dividende paid and proposed in respect of the 52 weeks ended 31st March 1962:—  4,431 Preference 4,431  7,75,52 Ordinary—Interim 15% (Paid Zebh April 1962) 32,156  45,938 Proposed Final 25% 53,594  79,931  The above balance of Undistributed Profit is made up as follows:—  Farent Company 67,159  193,441 Subsidiary Companies 186,671								Com	pany										
2,600				-	the G	roup:	_												
20,595					••	••	••	••	• •	••	• •	••	••	••	• •	••			
1,822   Audit Fees and Expenses   1,823   44,012   Depreciation   45,231   3,787   Losses less Profits on Disposal of Fixed Assets   1,831   78,		2,600	As Dire	ectors	••	••	••	••	• •	••	••	••	••	• •	••	••	2,600	•	
1,822   Audit Fees and Expenses   1,823   44,012   Depreciation   45,231   3,787   Losses kes Profits on Disposal of Fixed Assets   1,831   78,   78		24 505															29 049		
### ### ##############################			Audit Fees	and Evnense													27,000	1 823	
3,787 Losses Jess Profits on Disposal of Fixed Assets 1,831  76,216  GROUP NET PROFIT FOR THE 52 WEEKS . 261,  Deduct:  Taxation based on the Profits for the 52 weeks:—  83,710 Income Tax				•	•	••	••	••	••	••			••	••	••	••			
78,216			•		sposal	of Fix	ed Ass	ets	•••						•••				
Deduct:	76,216				-,				••	•••	.,			•••	••	•			78
Deduct:				•															
Taxation based on the Profits for the 52 weeks:  83,710	20,351		GROUP NET	PROFIT FO	R TH	E 52	WEEK	s	••	••	••	••	••	••	• •	••			261,
83,710 Income Tax					_														
24,900 Profits Tax		02.710			rofits	for th	e 52 w	eeks:	-								05.045		
108,610   121,315   121,					••	••	••	••	• •	••	•• '	••	••	••	• • •	••			
Less: 2,168 Overprovision last year		24,900	Profits 12	ix	••	••	••	. ••	••	••	••	••	••	••	••	••	36,030		
2,168 Overprovision last year		108,610															121,315		
106,442		2.168		rision last ve	ar												1.833		
273   Minority Shareholders' Preference Dividend   273			0 101 p. 01		•	••	••	••	••	• •		••		••	••	••			*
119,   13,636																	119,482		
141.   Add:   204.		273	Minority Sh	areholders' l	refer	nce D	ividen	d		••	••	••	••	• •	• •	• •	•	273	
Add:  70,703 Balance of Profit brought forward	06,715												•						119,
204   346	3,636									•									141
204   346			Add:													•			
Deduct:   Net Dividends paid and proposed in respect of the   52 weeks ended 31st March 1962:—   6,431   Preference	0,703			rofit brough	t forw	ard													204
Deduct:   Net Dividends paid and proposed in respect of the   52 weeks ended 31st March 1962:—   6,431   Preference	4 000			,															
Net Dividends paid and proposed in respect of the   52 weeks ended 31st March 1962:—   6,431   Preference	4,339			•															346
52 weeks ended 31st March 1962:—   6,431			Deduct:	•															
6,431 Preference			Net Divider	nds paid and	ргоро	sed in	respec	t of th	1e										
27,562			52 weeks	ended 31st 1	March	1962:-	_												
45,938 Proposed Final 25%		6,431	Prefere	nce	••	••	• •	• •			• •			• •				6,431	
79.931 — 92.4408 UNDISTRIBUTED PROFIT OF THE GROUP CARRIED FORWARD			Ordinar					ril 196	2)	••	• •	• •		••	••	. ••			
The above balance of Undistributed Profit is made up as follows:—  64,967 Parent Company		45,938		Propose	d Fina	25%		••	••	••		••		••	••			53,594	
The above balance of Undistributed Profit is made up as follows:—  64,967 Parent Company	9,931							•	-						-				92
The above balance of Undistributed Profit is made up as follows:—  64,967 Parent Company	4,408		UNDIŞTRIBUT	TED PROFIT	OF T	THE C	ROUP	CAR	RIED I	FORW	ARD					•.•			£253
The above balance of Undistributed Profit is made up as follows:—  64,967 Parent Company	-																		
The above balance of Undistributed Profit is made up as follows:—  64,967 Parent Company			<del></del>	-						-							_		
64,967 Parent Company			The change	alanee of the	المعالم	.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	Dross :	المساء	5 IIF =-	faller					•	•	•		
139,441   Subsidiary Companies		64 947					, ront I	o made	- up as	POLION	s:							67 159	
							••	••	••	, · • •	••	••	••	••	••	••			
£204,408 £253,830			00037416	,pun				••	••			• •	• • •	••		••		,	
	•••	***************************************															_		

### CITY NOTES

THE prospect of economic re-expansion moves in October keeps the gilt-edged market strong and the equity market simmering. The Treasury's new long dated 'tap stock' exercise has had the effect of bringing long dated stock values towards the new tap stock issue price.

Strength in the market has allowed the Manchester Corporation to offer £10 million of 1973-74 6 per cent stock at only one point discount - the cheapest corporation borrowing on the market for a considerable time.

Action by the Chancellor of the Exchequer, once the International Monetary Fund and World Bank meetings are out of the way, is being so freely forecast that it has almost come to be accepted as fact. That being so, there is inherent danger to the economy if action is delayed beyond the prophesied time.

Certainly the various economic indications suggest that the sooner re-expansion action is taken the better. Sluggish bank lending, and hire-purchase and retail trade figures indicate the need for economic stimulus. Much must depend upon whether or not the Chancellor is determined to hold back any new measures until he gets trade union co-operation on his incomes policy. At Blackpool this week 'Nick' has had rough handling from the T.U.C. conference. The freely forecast October boom still seems to have more hope than substance.

### RATES AND PRICES

Closing prices, Wednesday, September 5th, 1962

Tax Reserve Certificates: (interest rate) 25.8.62 21%

1ax Reserve Certificates:	(Interest rate) 25.8.02 22%
Bank	Rate
Oct. 27, 1960 5½%	Nov. 2, 1961 6%
Dec. 8, 1960 5%	Mar. 8, 1962 5½%
July 26, 1961 7%	Mar. 22, 1962 5%
Oct. 5, 1961 $6\frac{1}{2}\%$	April 26, 1962 $4\frac{1}{2}\%$
Treasur	y Bills
June 29 £3 18s 5.03d%	Aug. 3 £3 16s 5.05d%
July 6 £3 18s 0.63d%	Aug. 10 £3 15s 8.84d%
July 13 £3 178 9.32d%	Aug. 17 £3 158 8.35d%
July 20 £3 18s 7·14d%	Aug. 24 £3 158 4.50d%
July 27 £3 17s 8.89d%	Aug. 31 £3 158 0.42d%
Money	Rates
Day to day 27-32%	Bank Bills
7 days 24-37%	2 months 3 15-4%
Fine Trade Bills	3 months 3 18-4%
3 months $5\frac{1}{2}-6\%$	4 months 3 18-4%
4 months 5\frac{1}{2} 6\%	6 months 3 15 - 4 16 %
6 months $5\frac{3}{4}$ 6 \frac{1}{2}\%	
Foreign E	xchanges
New York 2.801	Frankfurt 11.203
Montreal 3.01 §	Milan 17382
Amsterdam 10.09	Oslo 20.03‡
Brussels 139.36½	Paris 13.72 §
Copenhagen 19.39½	Zürich 12·10 <sup>3</sup>
Gilt-e	dged
Consols 4% 67 13	Funding 3% 59-69 88\frac{3}{2}
Consols 2½% 448xd	Savings 3% 60-70 84\frac{3}{5} Savings 3% 65-75 77\frac{1}{5}
Conversion $5\frac{1}{2}\%$ 1974 $98\frac{1}{2}$	Savings 3% 65-75 771
Conversion 5% 1971 973	Savings $2\frac{1}{2}\%$ 64–67 $89\frac{7}{18}$
Conversion 3½% 1969 90	Treas'ry 5½% 2008-12 943
Conversion $3\frac{1}{2}\%$ 59 $\frac{7}{18}$ Exchequer $5\frac{1}{2}\%$ 1966 101 $\frac{37}{2}$	Treasury 5% 86-89 90 18
Exchequer 5½ % 1966 101 3 10	Treasury 3½% 77-80 76 % Treasury 3½% 79-81 75½
Funding $5\frac{1}{2}\%$ 82-84 $97\frac{1}{2}$	
Funding 4% 60-90 92 76	Treasury 2½% 43 fs
Funding 3½% 99-04 66½	Victory 4% 95½
Funding 3% 66–68 89\frac{1}{8}	War Loan $3\frac{1}{2}\%$ $61\frac{5}{16}$

# Reviews

### The Art of Administration

by A. Leslie Banks, M.A., M.D., F.R.C.P., D.P.H., and J. A. Hislop, M.A., M.D., F.R.C.P. (University Tutorial Press Ltd, London. 125 6d net.)

Administration – which is defined in this context as 'management, with particular reference to public affairs' – takes in a wide field; those who have had to contend with its more eccentric forms might say it covers a multitude of sins. In this book the authors have limited their scope to a review of administration in the public sector and they deal briefly with the machinery of Parliament, central and local government, the Judiciary, voluntary organizations and public corporations and universities. In less than one hundred pages is sketched the history and tasks of the different kinds of organization that link together

to perform the nation's administrative functions. Thus the book is primarily for the genuine student of administration who wishes to expand a dictionary definition to a general understanding of the different aspects of administration. Often one meets in reading, some government or semi-government organization, the name of which is familiar, but about which one knows little more than the name: the first part of this book provides a useful source of enlightenment when this occurs.

The second half of the book, on the art of administration itself, may be useful to the embryo administrator who comes to his post with little previous knowledge of the workings of an office; but such a person must surely be rare. The administrator of even short experience will find little in this book that is new to him and may be irritated by some of the rather glib remarks on office management. Much of what is said is obvious or even ingenuous, as, for instance, the remark that 'anyone who "raids" the petty cash should leave a note to that effect'.

The final chapters on the conduct of meetings are

more happily conceived and provide a very readable guide to the principles and conventions of the formal meeting. Additionally the standing orders which appear in the appendix could be a useful source of reference for an office manager. To summarize, this undoubtedly is a useful book for those seeking its specific type of knowledge and information.

### Launching and Managing O. and M.

by G. E. MILWARD. (Macmillan & Co Ltd, London. 15s net.)

This book has been written following the author's leading part in the production of the excellent standard work Organization and Methods, published by Macmillan in 1959 for the Organization and Methods Training Council, to elaborate one chapter in that book. The preface stresses that the present book is the author's own work, and not an official O. and M. Training Council publication. Mr Milward is nevertheless to be congratulated on the result which, while being simple, practical and readable, at the same time makes some controversial remarks and misses no opportunities of enhancing the status of organization and methods.

The layout, all within a hundred small pages, allows half the book for a brief discussion of the principles involved in putting organization and methods to work in a business, while the other half is devoted to practical examples of the application of organization and methods to business problems concerned with production control, sales, purchasing, accounts payable and personnel documentation.

Two faults of the book are a slight tendency to simplify into meaninglessness—it is really no help to be told that 'the subject of the (O. and M.) assignment can be almost anything'—and some irritatingly lax spelling. Its great merit is its ability to stimulate management to action, and to guide the reader to the basic O. and M. Council textbook.

### The Steel Industry, 1939-59

by Duncan Burn. (Cambridge University Press, London. 80s net.)

A substantial volume, of over 700 pages, this work should be compulsory reading for every one who believes either that steel should be re-nationalized or that nationalization was a mistake. Mr Burn's history of the industry between 1867–1939 written before the Second World War provided him with an unrivalled understanding of its evolution and problems. Thus when during the war he became a member of the iron and steel control authority, he had an excellent vantage point for the continuation of his story.

This book is not light reading, although the style is itself eminently readable. For any person who claims any knowledge of one of Britain's most important basic industries, Mr Burn's work is compulsory reading, not least in view of this country's possible entry into the European Economic Com-

munity, whose steel industries the author examines with care. In view of the frequent suggestions that the industry should be subject to control as a monopoly, the chapters on United States experience are especially interesting. This is the sort of economic research which has real value.

### **Design of Regional Accounts**

Edited by Werner Hochwald. (Johns Hopkins Press, Baltimore; Oxford University Press, London. 48s net.)

This symposium of papers, presented at a conference on regional authority accounts in St Louis, U.S.A., illustrates the development that has taken place in national income analysis in the last twenty years and the views of its potentialities held by many economists. Basically, the object is the same as that of national income accounts, i.e. to provide a flow of information upon which alternative policies can be evaluated. Such regional studies are of particular interest in the North American continent and specialists in the field of national income analysis will be interested to see what its potentialities are for localized issues.

### RECENT PUBLICATIONS

THE BRITISH JOURNAL PHOTOGRAPHIC ANNUAL, 1962. Edited by Arthur J. Dalladay, A.INST.P., F.I.B.P., F.R.P.S. 576 pp.  $7\frac{1}{2} \times 5$ . 8s net (board covers); 10s net (cloth bound). Henry Greenwood & Co Ltd, London. By Road to Naples and Sicily, by Robert Bell, (an

By Road to Naples and Sicily, by Robert Bell, (an Assistant Secretary, The Association of Certified and Corporate Accountants.) 239 pp. 7½×5. 21s net. Alvin Redman Ltd, London.

DEATH DUTY SCALES, fifth edition. Oyez Table No. 8.
April 1962. 12×4. Card covers. 3s post free. The Solicitors' Law Stationery Society Ltd, London.

DISTRIBUTION OF CONSUMER GOODS IN NORTHERN IRELAND,
A survey conducted for Ulster Television Ltd by Industrial Market Research Ltd. vii+52pp. 10½×8½. 125 6d.
Ulster Television Ltd, 1 Hanover Square, London W1.

ESTATE DUTY AND DONATIONS TAX, second edition, by D. Meyerowitz, B.A., Ll.B. xiii+279 pp. 10×6. £3 14s 6d. Juta & Co Ltd, South Africa: Sweet & Maxwell Ltd, London.

Laws of Business Management and the Executive Way of Life, by George Copeman, Ph.D. xiii+226 pp. 9×6. 42s net. Business Publications Ltd in association with B. T. Batsford Ltd, London.

THE LAW OF RESTRICTIVE TRADE PRACTICES AND MONO-POLIES, First Cumulative Supplement (To February 1st, 1962), by Sir Richard O. Wilberforce, Alan Campbell, M.A., and Neil P. M. Elles, M.A. xi+76 pp. 10×6½. Paper covers. 155 post free. Main work £4 175 6d. Sweet & Maxwell Ltd, London.

An Introduction to British Economic Statistics, by E. Devons. 260 pp.  $7\frac{1}{2} \times 5$ . 128 6d net. Cambridge University Press, London.

THE MODERN LAW OF REAL PROPERTY, minth edition, by G. C. Cheshire, D.C.L., F.B.A., with the Parts on Registered Conveyancing and Town and Country Planning by J. B. Butterworth, M.A. lxii+892+57 pp. 10×6½. 62s 6d net. Postage 2s 6d extra. Butterworth & Co (Publishers) Ltd, London.

These books may be obtained from, or through, Gee & Co (Publishers) Limited, The City Library, 151 Strand, London WC2.

# Correspondence

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

### **Eighth International Congress of Accountants**

SIR, — The Chartered Accountants' Benevolent Association has chartered two aircraft from B.O.A.C. to transport its members (with eligible dependants) to and from New York for the purpose of attending the Eighth International Congress of Accountants which is to be held there from September 23rd to 27th, 1962. A few of the members who intended to travel on these aircraft now find that they are unable to do so and therefore I would like to fill their places. The cost per passenger is approximately £80.

Both aircraft will leave London on September 20th, 1962. One returns on September 29th, 1962 and the

other on October 12th, 1962.

If any member of The Chartered Accountants' Benevolent Association is interested, would he or she please inform me without delay. No other inquirers can be considered.

Yours faithfully,
ALAN S. MACIVER,
Honorary Secretary,
THE CHARTERED ACCOUNTANTS'
Moorgate Place,
Benevolent Association.
London EC2.

### Whole-pound Accounting

SIR, - Perhaps this case history will be of interest to Mr W. C. Nowell, whose letter appeared in *The* 

Accountant of August 18th.

When I was in charge of the overheads accounting system of a large branch of one of the large engineering groups, we considered whole-pound accounting, but not completely. While the total of purchases, wages, stores requisitions and the like were recorded in the financial books in full, the entire analysis by department and type of expense was done in round pounds. We found:

- (1) The difference was, of course, made up of lots of small ups and downs, and the final small difference necessary to reconcile with the financial books, which was never more than a few pounds, was written-off to some account where it did not show let us say on sundry expenses account of 'common services' department, and hence allocated over all departments. Not completely honest perhaps, but of so little importance as to justify overlooking.
- (2) The time saved by clerks who recorded the analyses by not writing the small change and by the comptometer operators who balanced up the analyses was very considerable and saved enough time at the end of the accounting period to enable the figures to be 'read' and a commentary supplied with the accounts which had to reach head office

by a certain early deadline. This, of course, greatly increased their value.

(3) By reducing the space required for each entry, we found it possible to re-design the paper-work so fundamentally that instead of several thousands of cards being in use at any one time there were about eighty. The new paper-work in turn enabled additions to be done and proved throughout the accounting period, and reduced still further the time needed at the end for processing the figures. In addition, the new records were now in exactly the right form for preparation of reports to departmental managers, which were therefore ready to be issued much more quickly.

We came across no snags which were not immediately cured, and the advantages were far more than we had originally expected.

Manchester 20.

Yours faithfully, R. S. FRASER.

### The Clearing Banks

SIR, - I am constrained to write you in connection with your leading article in the August 25th issue of *The Accountant*. In the table headed 'The Clearing Banks' which is attached to this article you quote as follows:

'Williams Deacons . . . 1958 (with Royal Bank of Scotland and Glyn's) British Wagon Co Ltd acquired.'

This, unfortunately, is an erroneous statement. Correctly stated, the Three Banks Group acquired in 1958 a 40 per cent interest in the British Wagon Co Ltd. This company, of which I am a director, is not controlled by the Three Banks Group.

Rotherham.

Yours faithfully, C. E. COPLEY.

[We are obliged to our correspondent for his correction to the table published in our issue of August 25th – Editor.]

### **Deferred Expenditure**

SIR, - A company producing expensive equipment offers customers rental terms, on four-year contract, as an alternative to outright sale. The initial administration, selling and installation expenses incurred to secure a rental contract and a sale are exactly the same.

If the whole of the initial expenses in respect of rental contracts are charged against income in the year the contract is secured the result will be a net loss followed by high profits in the second, third and fourth years of the contract. It is expected that continued expansion will multiply the effect of this, causing profits to be unfairly low for several years, followed by a period of unduly high profits. To counter this it was proposed that these expenses should be written off over the four-year contract period, but it has been argued that this would be contrary to the best current accounting practice.

Would any readers care to express an opinion?

Yours faithfully,

TRUE & FAIR VIEW.

### SCOTTISH INSTITUTE'S SUMMER SCHOOL

### Tenth Annual Event at St Andrews

The tenth annual summer school of The Institute of Chartered Accountants of Scotland, which assembled at the University of St Andrews on Friday of last week, and dispersed on Tuesday, was attended by 115 members including six ladies. Also present as guests of the Institute were Mr R. P. F. Olden, F.C.A., and Mr W. Stuart Orr, B.A., LL.B., A.C.A., Vice-President and Secretary, respectively, of The Institute of Chartered Accountants in Ireland; Mr A. W. Graham, B.COM., F.R.A.N.Z., Secretary, The New Zealand Society of Accountants; and Mr J. K. Port, A.R.A.N.Z., thirteenth travelling scholar of The Incorporated Institute of Accountants of New Zealand.

The school terminated a day earlier this year in view of the Eighth International Congress of Accountants to be held in New York later this month which many

members are attending.

To mark this tenth occasion of the holding of the school, the University Court gave a reception for members in the Younger Graduation Hall, United College, on Friday evening. A lectern, bearing the arms of the Institute and of the University in silver, was presented by the President, Mr James C. Stewart, C.A., on behalf of the Institute, and received by Sir Malcolm Knox, M.A., LL.D., F.R.S.E., Principal of the University. Later at dinner a toast to the guests was proposed by the President, and Mr Olden responded.

### **Public Expenditure**

After dinner the first address, entitled "The growth of public expenditure and its control', was given by Professor D. J. Robertson, M.A., Professor of Applied Economics, University of Glasgow. In the course of his address he explained that the total national expenditure was now about twenty-five thousand million pounds and that Government expenditure accounted for about one-third of this sum. After excluding interest on the National Debt and transfer payments, Government expenditure totalled almost six thousand million pounds, of which the central Government share was about four-fifths - local government accounting for the remaining one-fifth. Expenditure on defence, transfer payments, interest on the National Debt, the Health Service and subsidies accounted for about go per cent of total Government expense, and administration for only 1 per cent - a percentage which made any economy on administration of little significance. Professor Robertson suggested that an improvement would be to lengthen the budget period to three years. Any change in expenditure should take into account related expenditure, e.g. unemployment benefit and redundancy payments.

### **Accounting Conventions**

On Saturday morning, Mr R. M. Morison, M.A., C.A., a partner in Thomson, McLintock & Co, Chartered Accountants, London, introduced his paper 'A critical review of accounting conventions'. The matters to which Mr Morison gave attention included the treat-

ment of fixed overheads — particularly in relation to stock valuation; the fluctuating profits of businesses carrying out contracts lasting for several years; the provision to be made for future losses; stock profits; the disclosure of the results of various activities by one firm; gearing and obsolescence.

In the afternoon a golf competition against bogey was played over the New Course. The 'Summer School Trophy' was won by Mr Quinton T. Crichton, who was eight up on bogey. The booby prize was very narrowly won by Mr T. D. Lynch who was 17 down.

On Sunday morning a special service for summer school members, held in the Collegiate Church of St Salvator, was conducted by the Reverend James C. Stewart, M.A., son of the President of the Institute, who is Assistant Minister of St John's Kirk, Perth.

A car treasure hunt was organized on Sunday afternoon by Mr A. I. G. Farquharson, c.A., A.C.W.A. The winning car was driven by Mr David Paton and navigated by Mr J. T. Welsh and Mr Gordon Stuart.

### The Young C.A. Looks Forward

On Sunday evening Mr J. C. Shaw, B.L., C.A., A.C.W.A., a partner in the firm of Graham, Smart & Annan, Chartered Accountants, of Edinburgh, and Mr A. L. Stewart, C.A., M.I.O.M., finance director of Ethicon Ltd, Edinburgh, gave summaries of their paper The young chartered accountant looks forward'. There was a lively discussion of many important and controversial questions, including the provision of management services, the place of small firms in public practice, the pros and cons of specialization, as well as more domestic issues affecting the working of the Institute.

A paper entitled 'Financial controls in industry' was given by Mr W. L. Spalding, B.SC.(ECON.), C.A., F.C.W.A., F.C.I.S., assistant secretary of Decca Ltd, on Monday morning. In his paper, Mr Spalding considered the financial controls required to achieve a satisfactory rate of return on capital employed. The target rate of return, the measurement of capital employed both in the operating unit as a whole and its separate activities, the relationship of fixed and variable costs in relation to profitability, forecasts, capital investment projects, and budgetary control of assets were all matters which received detailed review and discussion.

### Course Dinner

The proceedings of the school terminated on Monday evening with the official dinner at which the toast of the University of St Andrews was proposed by the Vice-President, Mr W. L. Milligan, J.P., B.A., C.A. The response on behalf of the University was given by Professor J. H. Baxter, Officier de l'Instruction Publique, M.A., D.D., B.D., D.LITT., F.R.S.E., Professor of Ecclesiastical History. The toast of the Institute was proposed by Mr R. P. F. Olden, F.C.A., Vice-President of the Irish Institute. Mr James C. Stewart, President of the Scottish Institute, replied.

The role of the summer school is an important one,

providing as it does a valuable link between the Council of the Institute and members, as well as giving members the opportunity of meeting each other to discuss their problems. One of the foundations of the success and popularity of the school is the venue which charms the member attending for the first time and endears itself to those fortunate enough to have attended previous schools. Even so, it cannot go unrecorded that complete

success could hardly have been achieved without the devoted work of Mr G. D. H. Dewar, c.A., the Convener, and the other members of the Summer School Committee, the contributors of the papers, the discussion group leaders and the highly efficient secretariat.

The eleventh summer school is to be held at St Andrews from Friday, June 14th, to Wednesday, June

19th, 1963.

# Canadian Institute's Diamond Jubilee

### Conference at Fredericton, New Brunswick

THE Canadian Institute of Chartered Accountants this year celebrates its Diamond Jubilee. Since those early days at the beginning of the century, with a membership barely reaching three figures, the Institute has grown to a present strength of nearly 11,000. Growth has been particularly rapid over the last decade, during which time some 6,000 new members have been admitted.

As mentioned under 'Weekly Notes' in our last issue, a Diamond Jubilee Conference was held in Fredericton, New Brunswick, from August 26th–29th, when some seven hundred members and their ladies were present. Mr George W. Hudson, F.C.A., President of the Canadian Institute, and Mr G. Andrew Oulton, F.C.A., President of the New Brunswick Institute of Chartered Accountants, were the joint hosts.

The conference opened with the annual general meeting of members, at which Mr J. R. M. Wilson, F.C.A., Chairman of the Committee on Objectives and Organization, reported on highlights of the Institute's activities during the year. At the luncheon following the meeting, the conference was addressed by Mr R. A. Irwin, President, Bathurst Power & Paper Co Ltd, on the subject "The responsibility of Canadian industry in research'. Mr Irwin said that one reason why managements were reluctant to use company funds for research purposes was because it was customary for most companies to look at 'return on investment' as at least one criterion as to where the moneys should be spent and on this basis research expenditure fared poorly. Managements, he said, failed to realize that a return on an expenditure for research could not be expected in less than five years and more normally might take ten or even twenty years.

At the business sessions eleven subjects were considered and we summarize below some of the addresses presented.

### Sales Tax

Mr F. R. Irwin, Director of the Taxation Division, Department of Finance, speaking on the 'Federal sales tax' at the opening Panel Discussion, stated that critics had called the sales tax inflationary and discriminatory; supporters believed that it might have less adverse economic effects than a tax on earnings; while those who advocated its abolishment were faced with the fact that alternative methods of raising over \$1 billion in tax revenue per year looked even less attractive.

Mr Irwin said that although Canada leans fairly heavily upon the sales tax, which in recent years has produced about 15 per cent of total tax revenues and about 45 per cent of the revenue of the old-age security fund, there was even greater dependence on this source of revenue in many other countries. In France, Germany and Russia, for example, total tax revenues

derived from sales tax exceed 40 per cent and in ten other European countries exceed 20 per cent.

Compared with the tax in some other countries, said Mr Irwin, the Canadian single stage sales tax of II per cent imposed only once in the distribution process on the price at which manufacturers sell their goods looked simple. The fact that the tax was imposed on the manufacturer's selling price, or on the duty paid value of imported goods, had given rise to some of the most difficult problems in administering the Canadian tax.

Mr Irwin stated that a somewhat different but equally troublesome problem was that of exemptions. One of the prime reasons for exemptions was to prevent the tax having too heavy an impact on low income groups; exemptions had also been granted on religious, charitable, educational or cultural grounds or to prevent multiple taxation. Experience had shown, he said, that the more exemptions there are the more requests for new ones are likely to arise. As a result, the Government was continually in receipt of requests to add more items to the tax-free list. He contended that since the sales tax was meant to be a general tax it should be applied to every finished commodity unless there was a very good reason for an exemption. Even comparatively minor exemptions over the years, he concluded, could lead to a considerable erosion of the sales tax base.

Another speaker on the same subject, Mr M. J. Gorman, F.C.A., Director of the Excise Tax Branch, Department of National Revenue, said that department officers needed a vast amount of knowledge to issue rulings and regulations and this could not be acquired without close consultation with industry. Taxpayers, he said, were given extensive appeal rights on both the application of the tax and on cases where overpayment or underpayment had occurred. Appeals can be taken to the Minister and on to the Tariff Board; final appeals can be made to the Exchequer Court or the Supreme Court. He pointed out, however,

that appeals to the Tariff Board do not, at the present time, cover the value or basis on which the tax applies because this would involve disclosing confidential information.

Mr Gorman stressed the importance of manufacturers correctly applying the tax to the goods they produced. If this was not done it could be an adverse factor in competition, first, because of the rate of tax itself; secondly, because of the close scrutiny given by some purchasers to the tax being charged them by vendors; and, thirdly, if wrongly applied it might mean the difference between profits and losses. Some manufacturers sell their goods direct to users or consumers while a competitor may sell to wholesalers or retailers. If the tax was applied in all cases on the actual selling price an inequity would quickly arise; in order to produce equity, Mr Gorman pointed out, the department tried to equalize the tax as far as possible as the goods passed through the marketing process.

Mr Gorman said that chartered accountants could be of great assistance to their clients by helping them to present a more enlightened case to the department regarding the application of sales tax to goods, the value or basis on which the tax should apply or in regard to presenting a case in connection with an underpayment or overpayment of tax. He appealed also to taxpayers and associations to assist the department in keeping the Act and regulations up to date based on knowledge of their clients' operations and the marketing processes of the industries concerned.

Mr J. Eric Ford, c.A., of Toronto, criticized members of the profession for their indifference to sales tax matters. All too often, he said, sales tax work was left to the order clerk or assistant purchasing agent and while such personnel might well be expert in sales tax matters, they were not always gifted with sufficient imagination or importance in the company to influence corporate policy.

### Management by Objectives

Professor W. A. Thompson, Associate Dean of the University of Western Ontario's School of Business Administration, speaking on 'Management by objectives' at a later session, said that as a result of the need for truly responsible and able people in business, there was a growing interest in what was termed 'management by objectives', by which a company defined precisely where it wanted management to go before it decided how it should proceed.

Professor Thompson said that an approach of this kind started with a company setting out some specific overall objectives and defining the constructive role of the performer of the work to be done. 'When we talk about management by objectives we are interested in the results of the work rather than the listing of specific duties that the job holder must perform,' he said.

Objectives set up for particular jobs should be reasonably attainable – probably within a twelve-month period. They should be interrelated to objectives in other areas in the firm. He contended that the sequence of objective setting should start at the top and each lower level of management should know what its part was to be. It should not be arbitrary and there should be the maximum participation all the way through the organization.

Professor Thompson noted that one of the greatest

difficulties was the actual setting up of objectives. This called for skill and ingenuity. Another difficulty revolved around the scarcity of the kind of man who can operate as a subordinate in this kind of atmosphere. The system, he said, assumed high management competence throughout the organization and the whole process was an important facet to good superior-subordinate relationship.

### **Educational Policies**

Mr Peter S. Leggat, C.A., of Montreal, Chairman of the Institute's subcommittee on long-range educational planning, urged members to prepare for the time when the entrance requirements for the profession would have to be a university degree, in a paper entitled 'Are our long-range educational policies desirable and practicable?', at an early morning (8.30 a.m.) breakfast meeting of the conference.

He told the meeting that 1970 had been set as a target date by the committee and that answers to the problems that will inevitably arise will have to be found before 1965 in order to make a smooth transition. 'Competition has been one of the great strengths of the profession and we have been extremely successful in this area. Let us try our hand in a slightly different arena where the stakes are equally high,' said Mr Leggat

The accounting environment, according to assessments made by Mr Leggat, will require in the future men with broader and better disciplined minds and a much more extensive syllabus with a concentration of teaching over a shorter period of time. The high school student, he said, could not be expected to be ready for such training; his study habits, discipline of mind and reasoning powers had still to be rounded off and this process was completed at university.

He emphasized that the smaller practitioner would require a broader grounding if he was to continue to be the leader in the community and the champion of small business. 'Many practitioners will have to take a serious look at the audit techniques and procedures which are presently in use and assess whether these are up to date or necessary,' he said.

Mr Leggat stated that the question of how the profession can arrange its affairs to keep pace with the rapid developments of the present day was in the minds of accountants all over the world. The feeling in the United States, he said, was that the accounting profession was on the brink of a significant breakthrough. He felt that any improvement in the educational programme should be aimed at the development of a cultural professional man motivated to assume the social responsibilities and dedicated to a life of continuing study. This would mean expansion

### Systematic Approach to Data Processing

in the scope of the educational programme and its

modernization in quality.

Greater planning and study by management before the installation of a computer – rather than after – was the consensus of opinion during a panel discussion on data processing at a subsequent session.

Mr David Watson, of Toronto, said that a great deal more detailed planning than is being carried out at present should be completed by management before the final decision to use a computer was taken and the actual equipment selected. Until this happened, he said, there would continue to be comments from nearly every user that the computer was costing a great deal more than was estimated and that it was not producing the advantages which were expected. Mr Watson said that feasibility studies were sometimes conducted not as fact-finding investigations but as sales campaigns against top management resistance. He emphasized that a computer should be introduced into a company only if it could be used to do work that either reduced costs significantly or provided profitable information. He also stressed greater participation by management rather than leaving the development of business systems in the hands of the machine supplier and junior technicians who often did not show the plan to management until after the computer went into operation.

Mr Gordon H. Cowperthwaite, F.C.A., also of Toronto, said that there had been far too many instances where the use of computers had not come up to expectations and the high hopes of top management had turned to disillusionment and embarrassment. In deciding whether or not to install a computer, a complete analysis of the system and its requirements must be made rather than a study directed towards the use of one particular machine, said Mr Cowperthwaite. Costs of converting from the old system to the new must be estimated, the capacity and willingness of the company to assemble the staff to carry out the programme must be considered and a decision reached as to whether the management group will accept the new

system using the computer.

Mr Cowperthwaite said that up to the end of last year there were twenty large-scale computers and 250 medium-scale machines installed in Canada. In the future, however, a wide variety of smaller, faster, cheaper machines would be introduced and this, in turn, would lead to a greater standardization of programming techniques, better ways of evaluating programming staffs, more efficient installation and a closer relationship between management decision making and computer use. On the other hand, said Mr Cowperthwaite, no matter how sophisticated the system or how smoothly the installation is achieved, the use of a computer will remain an aid to and not a substitute for good management.

### Reduce to Survive

A reducing plan for over-weight businesses to ensure their healthy growth was proposed by Mr L. J. Smitten, controller of General Foods Ltd, Toronto, at a panel

session on the Tuesday afternoon.

Mr Smitten said that over-expansion was one of the greatest single causes of business failures and that unhealthy bulges can appear in a business as a result of too many products being made, unprofitable distribution methods, unneeded facilities, over-organization and over-management. He said that managements spend a disproportionate amount of time either dealing with problems that should never have arisen or correcting things of questionable value which would probably be better eliminated.

Parkinson's Law, which exposed over-organization in Government, can be applied equally well to many companies, said Mr Smitten. He suggested that management should investigate the work being done in all administrative departments in order to eliminate duplication of effort and then determine what staff

### NEW PRESIDENT

AS briefly announced in our last issue, Mr James W. Abbott, F.C.A., was elected President of the Canadian Institute for the

ensuing year at the closing session of the conference.



Mr Abbott, who is a partner in the Winnipeg office of Peat, Marwick, Mitchell & Co, qualified in 1939 and served in the Department of National Revenue, Winnipeg, from 1939-1946. He then formed his own practice under the

style of J. W. Abbott & Co which was subsequently merged - in 1960 - with Peat, Marwick,

Mitchell & Co.

A member of the Council of The Institute of Chartered Accountants of Manitoba from 1946–1957, he held office as President from 1955–57. Outside his professional interests, Mr Abbott has served as honorary treasurer of The Winnipeg Community Chest and as governor of the board of directors of Winnipeg Winter Club. His hobbies are curling and golf, and this year he is President of the Manitoba Golf Association.

were required to perform essential work in the cheapest and simplest way. He emphasized that this was not as easy as it sounded and required the experienced judgement and co-operation of the entire management and staff.

Mr Smitten stressed also the importance of pruning product costs, by maintaining not only a close study of all manufacturing operations but also by concentrating on improvements in the product itself.

### **Advantages of Incorporation**

Professor William G. Leonard, F.C.A., of the School of Commerce, Queen's University, and Mr D. F. C. Burton, C.A., of Halifax, were the two speakers at a panel session on "The pros and cons of incorporation".

Referring to the fact that by incorporating the

Referring to the fact that by incorporating the business the income could be effectively split into two—the proprietor's own yearly salary and residual corporate income after deduction of salary expenses—Professor Leonard said that it could be argued that this merely deferred tax from earlier to later years and that the accumulation of undistributed income postponed the day of reckoning with the Department of National Revenue but did not avoid it. He pointed out, however, that if the business continued to grow and the proprietor made adequate provision in his personal estate for his beneficiaries, accumulated earnings might never

need to be withdrawn and the tax saving was permanent. Furthermore, a business which was profitable in its earlier years might run into later years of loss. To the extent that losses of later years eat into retained earnings of earlier years the tax postponement arising from incorporation became a permanent tax saving, whereas if a business concern were unincorporated, the only relief for business losses of later years was a loss carry-back of one year for the first year of loss. Professor Leonard contended that for the individual with extensive business interests the high rate of tax on the graduated rate structure made the use of the corporate form imperative.

Mr Burton advanced the theory that in Canada's present economy and democratic form of society there should not be any tax differences between two businesses contributing to the common good, where one happened to be a proprietorship and the other a corporation. If anything, he said, preference should be given to the proprietor since he was the individual who conceived and developed the business.

### **Public Relations**

Speaking at a panel session on 'Public relations', Mr William V. Victor, c.A., of Montreal, said that many chartered accountants failed to recognize that they were now facing a threefold professional, political and personal challenge. Mr Victor, who is the Immediate Past President of The Institute of Chartered Accountants of Quebec, told the meeting that to keep pace with industry, chartered accountants must broaden their horizons by being forward looking, imaginative and versatile. The development of the profession and of each individual member must parallel that of industry, he said.

In regard to the political challenge, Mr Victor stated that considering the Federal Budget was close to six billion dollars and Government was the largest business in the country, greater representation in Parliament by chartered accountants would unquestionably reflect to the credit of the entire profession. Members, he said, should not disassociate themselves from public life on the pretext that it might be too demanding on them.

Mr Victor said that there were many different kinds of institutions requiring volunteers who were capable and prepared to give freely of their efforts. Chartered accountants can add immeasurably to any board meeting whether the topic was budget, organization or the establishment of policy. The profession need have little concern for its public relations if its individual members meet their responsibilities in these three areas, he concluded.

### China - The New Puritans

Mr G. C. Andrew, Executive Director, Canadian Universities Foundation, Ottawa, was the guest speaker at the Members' Luncheon on the final day of the conference. Mr Andrew, who has recently returned from a visit to China, said that what impressed him most was the unity of purpose and widespread belief in what used to be called the homely virtues of plain living, high thinking, individual thrift, collective effort and, above all, an overpowering belief in education as the means of scientific, technological and social salvation, as well as cultural, moral and spiritual uplift.

There were at present some ninety million children attending school from grades one to six and starting at the age of 7, said Mr Andrew. Now there was agitation to begin education at the age of 6. There were some nine million attending academic schools and another three million attending vocational or technical schools. In addition, there were some 900,000 students at universities or in higher educational special institutes. These figures, he said, large as they are, were recognized by the Chinese as being thoroughly inadequate for a nation that aspired to cultural, social and industrial advance.

Mr Andrew stated that it was easy enough to draw attention to China's agricultural shortcomings but no one could deny her progress in preventive medicine, the fair distribution of food supplies and the development of education; the last mentioned not only in schools, universities and technical institutes but through a literacy campaign that had been conducted by educational agencies of all kinds, through industrial plants, trade unions, co-operatives and communes, correspondence courses, radio and television courses and night schools.

In contrasting China's faith in the future with that of the western world, 'Mr Andrew said that, despite differing political religions and cultural predispositions, there were certain problems which were recognized by most people as being world-wide in their application and implication. The most obvious of these were world population, world health, and world food.

"The fact is that we in the West have made only sporadic and frightened efforts to look some of these great world problems fully in the face and when we have looked at them, for the most part, we have recoiled on the grounds that we, the differing sections of the human race, have not the power to control the circumstances that would lead to a grappling with the total problem."

There was no hope for the world, said Mr Andrew, unless countries were willing to divert an adequate share of their time, energy, brains and resources to the problems which affected the whole human family and not only those that affected their own section of that family.

'Canada can no longer live industrially under the wing of a Commonwealth preference or an American indulgence', said Mr Andrew. Politically, we are too big a state with too important interests in the world to allow the British or the Americans to do out bargaining for us or to interpret through their own news agencies our interests abroad. We must show more enterprise, politically and socially no less than scientifically and industrially, if we wish to make use of our human abilities and to develop our total resources as a people. We have got to give more scope and opportunity to the more able of our young people. We have to invest heavily in research if we are going to make life in this country exciting enough to retain our most able youth and fulfil our obligations as a people to other peoples of the world.'

### SOCIAL EVENTS

A varied programme of social events included an opening reception for members and their wives and children, a family 'lobster boil' at which Don Messer and his Islanders entertained and provided squaredancing music, and a dinner-dance at Fredericton's Capital Winter Club. One afternoon during the conference was left free, when a golf tournament was held and tours were arranged to Camp Gagetown and the Lord Beaverbrook Art Gallery. In addition, there was an interesting programme for the ladies and a children's programme.

# Notes and Notices

### PROFESSIONAL NOTICES

MESSRS FRANKLIN, GREENING & Co, Chartered Accountants, of Broomspring House, 85 Wilkinson Street, Sheffield 10, announce that Mr J. S. Hoole, F.C.A., has retired as a partner. He will continue to be associated with the practice in a consultative capacity and will be available for appointments by arrangement. The style, telephone number and nature of the business will remain unchanged.

Messrs P. & J. Kevan, Chartered Accountants, of Bolton, announce that their Manchester office address is now Grampian House, 144 Deansgate, Manchester 3. The telephone number is unchanged.

Messrs Lingard, Wilson & Co, Chartered Accountants, of Manchester, announce that their address is now Grampian House, 144 Deansgate, Manchester 3. The telephone number is unchanged.

Messrs Thomson, Jackson, Gourlay & Taylor, Chartered Accountants, of 24 George Square, Glasgow C2, announce that Mr James Dempster Taylor, M.A., c.A., will retire from the partnership as from September 30th, 1962. As from October 1st, 1962, they will assume as partners Mr David Duncan Gibson, c.A., and Mr Iain Johnston Gilchrist, c.A. The name of the firm will remain unchanged.

Messrs Tiplady, Brailsford & Co, Chartered Accountants, of 36/38 New Broad Street, London EC2, announce that as from September 1st, they have admitted into partnership Mr S. G. Maynard, A.C.A., who has for a number of years been a senior member of their staff.

It is announced that a firm to be known as Annan Impey, Morrish & Partners, has been formed and will practise from 21 Ironmonger Lane, London EC2. The partners are Messrs C. I. Bostock, F. Boydell, B. A. Clark, W. H. Dawe, J. W. Hills, R. P. Matthews, H. S. Renton and T. E. Sweetman.

### Appointments

Mr Nigel J. Bennett, D.F.C., F.C.A., has been appointed group managing director of Tecalemit Ltd and chairman of Foamite Ltd, British Oil Burners Ltd, Industrial and Domestic Heaters Ltd and a new company – Tecalemit (Developments) Ltd.

Mr William Hayhurst, C.B.E., F.I.M.T.A., F.S.A.A., lately City Treasurer, Westminster City Council, has been appointed a director of Sterling Estates Ltd.

Mr F. J. S. Lord, F.C.A., secretary of Bear Brand Ltd, has been appointed a director of the company and becomes group financial controller, while retaining the position of secretary.

Mr F. W. McGuinness, T.D., F.C.A., has been appointed a director of Wyvern Property Co Ltd.

Mr D. G. A. Owen, B.COM., F.C.A., has been appointed a director of Gomme Holdings Ltd.

Mr W. D. T. Tapley, F.C.A., has been appointed to the board of The Avon India Rubber Co Ltd as works director.

Mr R. C. Thompson, F.C.A., deputy accountant of the English Sewing Cotton Co Ltd, has been appointed accountant of the company.

Mr R. L. Tiffany, F.C.A., has been appointed chief accountant of M. Vanger Ltd and Elmo Stores Ltd.

Mr Charles Wallis, F.C.A., has been appointed to the board of I. B. E. Ltd.

### CENSUS OF PRODUCTION FOR 1963

The next Board of Trade full and detailed Census of Production will be taken in 1964, in respect of business done in 1963. A detailed census of this kind is now taken once in five years, those of intervening years being of a simple character.

In this census information is being obtained about certain business expenses, including in particular transport expenses. Hitherto, there has been little systematic information about the importance of transport costs to different industries.

The census forms for 1963 will include questions on:
(1) working proprietors, (2) employment, (3) wages
and salaries etc., (4) stocks, (5) capital expenditure,
(6) work done by other firms, transport costs and certain
other expenses, (7) materials, goods and fuel purchased,
(8) sales and work done.

In sections (2) and (3) separate particulars will not be required for males and females; nor will figures be required for a pay-week in October in addition to figures for the year as a whole. In the purchases section (7), firms will be asked for details of the items purchased as well as their total cost, information which has not been obtained since the census for 1954; but the number of items for which particulars of the quantity purchased will be required as well as the value has been kept to a minimum for 1963. Questions are included about the number of persons engaged on transport work, and about the costs of operating road goods vehicles. Other business costs on which questions will be asked include employers' National Insurance contributions and payments to superannuation and other pension funds; payments for rates, and the cost of plant and machinery hired.

Small firms with fewer than twenty-five employees will be required in this census to state only the nature of their business and the number of persons employed, except in a few industries in which they contribute a substantial proportion of total output; in such industries a sample of firms will be asked to complete a simplified version of the standard form.

Inquiries should be addressed to the Board of Trade, Census Office, Lime Grove, Eastcote, Ruislip, Middlesex.

### EXCHANGE CONTROL Use of Sterling Notes Abroad

The Treasury has announced that from August 30th, 1962, residents of the United Kingdom who travel abroad are allowed to spend or exchange anywhere abroad up to £50 in sterling notes if they wish. An Order (The Exchange Control (Payment in Currency Notes) Order 1962 - S.I. 1962, No. 1847) giving effect to these changes was published on August 20th.

Previously, a traveller was permitted to take out of the country up to £50 in sterling notes but not to spend the notes abroad; they were intended only for use on British ships or aircraft, and to meet the traveller's expenses on his return to the United Kingdom.

### LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

### Meetings on the Common Market

The Committee of the London and District Society of Chartered Accountants have arranged a series of three meetings on the European Common Market to be held in the Oak Hall of the Institute as follows:

October 30th: "The European Common Market and the Treaty of Rome', by Sir Graham Cunningham, K.B.E., LL.B., latterly chairman, Triplex Holdings Ltd.

November 13th: 'The Common Market's challenge to the

City', by 'The Hon. Arthur Maxwell Stamp, director,

Philip Hill, Higginson, Erlangers Ltd.

December 4th: 'The practice and the profession of accountancy within the Common Market', by Mr J. Kraayenhof, Past President, Netherlands Institute of Accountants.

Each meeting will commence at 5.30 p.m. and addresses will last for approximately half an hour and about the same amount of time will be devoted to questions and discussion. It is hoped that there will be a good response from members and that the meetings will be well attended. Further information is available from the secretary of the Society, Mr J. W. G. Cocke, T.D., M.A., F.C.A., 2 Norfolk Street, London WC2.

### THE MANCHESTER CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY

### Saturday Morning Lectures

A comprehensive programme of Saturday morning lectures designed to give Intermediate and Final students an opportunity of attending lectures on subjects covered by the examination syllabus, will commence later this month at the Chartered Accountants' Hall, 46 Fountain Street, Manchester 2. The same Intermediate and Final lectures will also be given in Preston, at The Reform Club, Chapel Street, Preston.

Further particulars are obtainable from the honorary secretary, 46 Fountain Street, Manchester 2.

### THE INSTITUTE OF INTERNAL AUDITORS **European Regional Conference**

The third European Regional Conference of The Institute of Internal Auditors is to be held at the Hotel Metropole, Brighton, on October 10th, 11th and 12th. The conference will assemble during the afternoon

of Wednesday, October 10th, and the opening address will be given that evening by Mr J. O. Davies, F.C.A., A.C.W.A., European Regional Director, followed by an address by Mr Bradford Cadmus, Director of Research and Education of the Institute, entitled 'Internal auditing in the world today - and the future'.

The speakers and their papers on the Thursday and Friday will be Mr C. S. Deverell, M.A., B.SC.(ECON.), B.COM., F.C.I.S., A.M.B.I.M., Head of Commerce and Management Studies Department, Brighton Technical College, whose subject will be 'Communications'; Mr D. W. Hooper, M.A., F.C.A., President, The British Computer Society, and chief organizing accountant, National Coal Board ("The impact of E.D.P. on audit techniques'), and Mr J. E. Wall, O.B.E., managing director, E.M.I. Ltd ('Management problems of size'). These three papers will be followed by syndicate meetings and at subsequent sessions questions raised by syndicates will be answered by the speaker. Other arrangements for the conference include a banquet, a meeting of the Chapter Presidents of the Institute with Mr Bradford Cadmus, and an open forum.

### **London Chapter**

The next meeting of the London Chapter of The Institute of Internal Auditors will be held on Wednesday next, at The Kingsley Hotel, Bloomsbury Way, London WC1, at 12.30 p.m. The speaker will be Mr E. A. Carr-Hill, of the British Productivity Council, and his subject will be 'A survey of the field of work study'.

### Birmingham Chapter

The inaugural meeting of the 1962-63 session of the Birmingham Chapter of the Institute of Internal Auditors will take place next Thursday, September 13th, at 6.30 p.m., at the Chartered Auctioneers' and Estate Agents' Institute, Regent House, St Philip's Place, Colmore Row, Birmingham, when Mr R. H. Pitchford, A.A.C.C.A., A.O.M.A., chief internal auditor, West Midlands Gas Board, will speak on 'Dynamic auditing'.

Further particulars of Chapter activities may be obtained from Mr R. C. J. Lucas, West Midlands Gas Board, Wharf Lane, Solihull, Warwickshire.

### COSTING IN THE FURNITURE INDUSTRY

The Furniture Development Council has been notable during the last decade for its establishment of an accounting and statistical consulting staff which has done valuable work in advising individual firms on costing methods and problems, and in making available comparative cost data.

The Council has recently published two new booklets which, though addressed primarily to furniture manufacturers, could be of interest to many in other industries. The approach in each case is direct, undogmatic, and not confused by unexplained professional terminology, so as to appeal to the manager without specific knowledge of accountancy.

The first booklet, Batch Size Calculations, is a précis of the Cranfield Research Report on the same subject. It explains the use of a formula for determining the 'minimum cost' batch size; and then suggests alternative lines of investigation into the cost of varying

batch sizes.

The second publication, The FDC Product Costing System, contains a clear and simple explanation of the sort of cost information a manager can use, and of how he sets about obtaining it. There are eleven full-page illustrations of forms for assembling budget information and establishing product costs, such as could be adapted by the accountant of any small or mediumsized business.

The offices of the Council are at 11 Adelphi Terrace,

Robert Street, London WC2.

### CHARTERED ACCOUNTANTS' HOCKEY CLUB

A most enjoyable game was played by the Chartered Accountants' Hockey Club against the Bank of England on August 8th, which not unfairly resulted in a draw two goals each. The accountants started off at a pace which should have resulted in two or three scores in the first ten minutes, but a scrambled goal midway through the first half was their only result at halftime. The Bank equalized soon after the restart and the accountants regained the lead when Hines converted his second long corner into a goal. This spurred the Bank to greater efforts and with the accountants' goal in siege, they equalized with a fine goal. The following represented the accountants:

P. Angus (Harpenden), W. M. Caldwell (Royston), N. Odams (Rickmansworth), M. J. Hodder (Berkhamsted), G. A. Davis (Merton), J. S. L. Bewers (Bishop's Stortford), M. A. Charlton (Rickmansworth) (Captain), A. C. A. Myers (H.A.C.), A. J. Hines (Bury Y.M.C.A.), W. E. Lawes (Richmond), B. E. Taylor (Tulse Hill).

### GOLF

The London Chartered Accountant Students' Golfing Society recently played a match against the Kent and Sussex Students' Golfing Society which resulted in a win for London by eight matches to five.

The results (London students' names first) were as

follows:

A. Fells and Leon Nahon beat A. Hudson and N. Rimmer, 5 and 4.

A. Wright and I. Richards lost to H. Reed and D. Jagger, 3 and 2.

M. Amos and J. Lyttleton beat D. Wheeldon and N.

Betteridge, 5 and 3.

A. Bolsom and A. Hawthorn beat P. Foreman and A. Pettitt, 5 and 3.

B. Colman and A. Ross beat C. Pollock and C. Pollock, 9 and 7.

> Nahon beat Pettitt, 3 and 2. Richards lost to Reed, 1 hole. Lyttleton beat Wheeldon, 2 and 1. Hawthorn beat Foreman, 2 and 1. Ross lost to Wright, 5 and 4. Bolsom lost to Hudson, 2 and 1. Fells, lost to Rimmer, 7 and 5. Amos beat Betteridge, 9 and 7.

### SEVENTY-FIVE YEARS AGO

From The Accountant of September 10th, 1887

A Weekly Note

If an incident related to us the other day is true, and we are inclined to believe that in substance it is, the Institute of Chartered Accountants received a few months ago the most grievous and decided snub ever inflicted upon it. The occasion was an important enquiry before a lawver (a Court official) as arbitrator, into charges of malversation and irregularity preferred against some of the members and officers of a well-known public body. Accountants were employed on both sides, one side having the benefit of the services of an old experienced and able chartered accountant, noted for his admirable common sense; the other having secured a gentleman who had had about three years' training in the office of a well-known firm, his previous experience in accounts being unknown. Anxious probably to ascertain what the qualifications of the latter gentleman were, counsel for plaintiffs asked: "Are you, Mr. X., a member of the Institute of Chartered Accountants, or of the Society of Accountants and Auditors?" "I am neither, sir," said the gentleman questioned, with a look and in a tone which would have made Henry Irving sick with envy; "I ignore them both!"

### ANNOTATED TAX CASES

Part 2 of Volume XLI of the Annotated Tax Cases, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, has now been published and contains reports with notes on the judgments of the following cases: Jamieson v. C.I.R., Wills v. C.I.R. (C.A.); Monthly Salaries Loan Co Ltd v. Furlong (Ch.D.); Seaward Brothers v. Varty (Ch.D.); Bispham v. Eardiston Farming Co (1919) Ltd (Ch.D.); C.I.R. v. Hood Barrs (Ch.D.); Wellington v. Reynolds (Ch.D.); Walter W. Saunders Ltd v. Dixon (Ch.D.).

The annual subscription to the Annotated Tax Cases is 50s post free; the publishers are Gee & Co (Publishers) Limited, 151 Strand, London WC2.

### OFFICIAL RECEIVER APPOINTMENTS

The Board of Trade has announced that Mr Wilfred Whitehead has been appointed Official Receiver in bankruptcy attached to the High Court with effect from September 3rd, 1962.

It is also announced that Mr Ernest Charles Sherwood has been appointed Official Receiver for the Bankruptcy District of the County Courts of Croydon, Guildford, Kingston upon Thames, Slough and Wandsworth. The appointment took effect on September 3rd, 1962.

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# THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

### Results of Examinations held in June 1962

### FINAL EXAMINATION

SECTION I

First Place: Dendy, R. C., London Second Place: Brown, F. W. E., Marlow Third Place: Rose, H. A., Basingstoke Fourth Place: Iwuchukwu, H. O., London

### (in alphabetical order)

Adams, A. A., Oxford
Adeniyi, J. A. A., London
Adepoju, J. A. A., London
Alexander, T., Carnwath
Appleton, D. G., London
Asante, B. O., London
Asare, S. A., London
Ashwell, Miss D. N., London
Atkinson, G. R., Rosyth
Austin, H. A., New Barnet

Bain, W. T., Aberdeen
Baldwin, M. G., Windermere
Barnes, K., Cottenham
Batty, J. C., Cheadle
Bell, G. A. L., Doncaster
Bello, G. A., London
Berry, G., Stamore
Blackham, O. H., Willenhall
Blythe, M. A., London
Bradbury, J. R., Doncaster
Brannan, J., Cookham
Brasnett, H., York
Brooks, E. A., Stoke Poges
Brunton, R., North Shields
Bull, J. K., London
Burns, J. F., Ilford
Burton, E. W., London

Campbell, J. M., Kuwait
Carroll, D. P., Dagenham
Chadha, K. L., Coventry
Childs, M. A., Teddington
Christofides, C., London
Clack, I., Kisumu
Clere, N. B., Sutton Coldfield
Clifton, T. B., Bedford
Coles, C. R., Coventry
Condon, J. S., London
Conway, J., Derby
Cooke, P. L., London
Cotton, R. H., London
Coutts, P. R., Bridgwater
Cox, B., Chelmsford
Crow, I. J., Middlesbrough
Cunningham, W. G. R., Dalkeith

Davies, T. J., Walsall Davis, D. J., Belvedere Dawses, R. J. M., Halifax Dawson, J. H., Bexley Dennett, P. S., Gillingham Donaghy, F. M., Belfast Doo, P. A., Hounslow Dransart, G. C., London Duffy, E. G., Dundalk

Elliott, B. E., Windsor Elliott, D. J., Wolverhampton Eversfield, J. E., Morden

Farrugia, R., London Feathers, J. A., Bexhill-on-Sea Fitzsimons, P. G., London Foleng, J. I. A., London Friday, B. J., Northfleet

Gerson, R. A., High Wycombe Gibbons, J., Dudley Gomeche, E. L., London Gorham, T., Crieff Greenhill, P. M., Sunbury-on-Thames

Hayden, W. J., Dublin Haynes, F. W., London Hennessey, E. R. J., London Hodkinson, M. J., Neston Homer, H. R., Swinton Horne, H. M., Ilkley Hyde, J. N. A., London

Johnson, M. H., Walsall Johnston, D., Glenrothes

Kelleher, M. F., Cork Kinlock, L., Bolton

Langard, P. A., Birmingham Lee, I. A. P., Spalding Lifford, A. J., Sanderstead

McEvoy, T. M., Twickenham McIlwee, F., Uxbridge Maboney, P., Tipton Marks, K. G., Salisbury Maurice, R. T., Port Talbot Melia, K., Slough Minett, A. A., Norwich Moss, D. A., Barnehurst Moss, D. J., Chislehurst Mumford, R. W., Droylsden

Nicholson, J. P., London Nolan, W., Cork

442 Candidates failed

Nwankwo, D. N., Wednesbury

Ogundare, S. O., Bristol Onyesoh, J. A., London

Parry, Miss W. E., Cambridge Pepper, D., Newcastle, Staffs Pickett, J. L., Crediton Piddington, F. G., London Phillips, G. W., Porthcawl

Quick, P., Leeds

Reidy, P. C., Dublin Richardson, J. E., Derby Richardson, R., Batley Riley, W. M., London Roberts, E. K., Hitchin Robinson, G. J., Polegate Roots, J. D. D., London Rowe, J. W., Whitley Bay

Scott, B. C., Liverpool Severn, J. B., Walsall Shortland, W. J., Woodford Green Silvester, R. B., Grimsby So Kwang Wing, C. F., London South, F. G., Brighton

Tate, R. W., Bootham
Tham, Yap Seng, London
Thomas, R. H., Manchester
Thompson, E. H., Glasgow
Thompson, P. J., London
Thomton, G., Whitehaven
Toal, W. T., Belfast
Turner, D. B., Liphook
Turner, D. R. E., West Croydon

Utting, J. H. N., New Malden

Vickery, A. E., Hillingdon

Wang, J. T. T., London Ward, A. B., Sheffield Wardman, D., Swansea Watson, P. S., Torquay Weir, T. J., Lurgan West, R. J., Ashford Wong, S. M. H., London

Yerrakadu, R. C., London

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### FINAL EXAMINATION

SECTION II

First Place and Prize: Pasola, T. C., London Second Place: Ray Smith, M., Wokingham Third Place: McNamara, A., Gravesend Fourth Place: Grinstead, E. P. L., Chertsey

### (in alphabetical order)

' Alli, M. A., Cardiff

Bacchus, R., London
Badger, W. J., Hove
Baker, K. H., Billericay
Barnes, W., Salford
Barwick, G. A., London
Beard, M. B., Cheam
Blunden, L. D., Bromley
Bowden, J. I., Leigh-on-Sea
Bowstead, C. C., Carshalton
Brading, Major E. W., Bushey
Buhagiar, F. X., Sliema
Bull, R. J., Ilford

Carter, E. J., Maidenhead Chambers, B. B., Weybridge Clinton, F. C. B., London Clough, B., Oldham Connor, L. P., Waltham Cross Crerie, W. O., London Crouch, P. A., Herstmonceux

Daly, C. A., London Davies, J. J., Milford Haven Davis, A. P. M., Teddington

Edwards, C., Bladon Evans, J. A., West Bromwich

Fagan, S. F., Dublin Ferguson, H., Kilmarnock

Gallagher, J., Glasgow Gyechie, G. E., London

Hampshire, E. O., Dorchester

Harris, G. C., London Hart, N., Ottershaw Hârtley, D. L., Preston Harwood, P. J., London Haywood, H. R., Cannock Horsman, E. H., London Hughes, D. J., Southwick Hulme, E. A., Hove Hyde, L., Croydon

Jones, E. H., London

Kelly, D., Dublin Kenyon, J. J., London

Lambert, J., Luton Langley, F. P., Sheffield Levett, M. E., Lichfield

McIntyre, G., London Mascarenhas, V. S. G., Ilford Miles, D. I., Maldon Mohamed Ali Mohamed, London Moore, N. H., Ilford Muir, A. J., Dundee Murray, J. S., Montrose

Neallani, N. H. M., Kingston upon Thames Nelson, W. K., London Newton, C. T., Hove Nicholls, N. G., Sevenoaks

Ocansey, S. R. T., London Oluwole, O., Leeds

Paxton, P. J., Cambridge Pell, A. H., Peterborough Petty, Major R. E., Taunton Phillips, R. A., London Pilbeam, A. F., Yalding Piper, J. L., Birmingham Pring, B. A., Bishop's Stortford

Richardson, Miss D. M., Banstead Riches, J. W. T., Tilbury Ritchie, W. H., London Roberts, K. G., Neath Robertson, I. M., Irvine Robson, D., Basildon Rutherford, J. H., Saffron Walden

Simms, J. R., Wolverhampton Spilsbury, J. B., Witham Stebbings, D. L., London Steward, J. H., Maidstone Stoneham, A. J., London Stride, E. C., Southampton Stringfellow, D., Manchester

Talbot, J. B., Reading Thomas, D. I., Leeds Turner, J. A., Greenford

Walding, T., Northampton
Walker, W., Bedford
Ward, Miss A. J., Ipswich
Weekley, R. A., Basildon
Welham, M. H. C., Norwich
Weller, D. J., Hornchurch
Wheatley, W. B., Blyth
Whittaker, B. D., Shepperton
Wildin, J., Sunbury-on-Thames
Wilton, P., Newcastle upon Tyne
Wright, R., Liverpool

295 Candidates failed

### **Summary of Results**

					Inter	rmediate ——	$\overline{}$ $F$	inal —	
	Candid	ates		Pre- liminary	$_{I}^{Section}$	Section II	Section I	Section II	Total
Passed v	vith Hon	ours		_	3	3	4	4	. 14
Passed	٠.,			59	503	398	134	93	1,187
Failed				88	1,049	423	442	295	2,297
To	tal sat	••	••	147	1,555	824	580	392	3,498

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# ACCOUNTANT

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Notes and Notices

# The Oxford Summer Course

STANDREWS, Oxford, and New York will have one thing in common by the end of September and that, of course, is that in that month all will have been invaded by migrations of accountants. Perhaps a hundred accountants at St Andrews may appear to be as big a crowd (especially if they all gather simultaneously at the first tee of the Old Course after lunch) as 4,000 accountants lost in the vastness of New York. Poised between these two extremes are the 254 members of The Institute of Chartered Accountants in England and Wales, who together with a number of guests, are in residence at Christ Church and Pembroke College this week-end. Oxford in the late summer is the ideal place for quiet contemplation and the writers of the three papers now under discussion have certainly provided material in good measure.

Friday's paper, by Mr R. W. SMITH, O.B.E., T.D., F.C.A., is entitled 'The problems of the smaller practice'. We nearly wrote 'the perennial problems' because the subject is always with us and understandably so. On Mr SMITH's evidence, no less than 19 per cent of all Institute members practising in the United Kingdom are sole practitioners and another 23 per cent are in practice with one other partner. If three- and four-partner firms are considered small, then altogether about 72 per cent of the practising strength of the Institute comes into that category.

Mr Smith's approach to the subject is novel in that he considers in turn the relationships in which the smaller practitioner finds himself. These he lists as Government departments and officials; other professions; other practitioners; the Institute; his clients; his staff; and himself. Prominent in the first group is the Inland Revenue and he makes the excellent point that much work which might well be carried out by that department is, for reasons of speed and accuracy, done by accountants themselves. He would like to see a simplification of Government law and practice and he thinks that a campaign by accountants to achieve this would redound more to the credit of the Institute than would the efforts of a publicity committee.

One of the basic problems of the small practitioner is the question of fees. Mr Smith finds it 'bewildering' that there should be only a few lines in the *Members' Handbook* suggesting how fees should be based while no fewer than forty-five pages are given over to explaining how the accountant can contribute to business efficiency. Mr Smith devotes twenty-two of the ninety-five paragraphs of his paper directly to this topic and he comes to the conclusion, after reviewing the methods adopted by other pro-

fessions, that there is no real reason why the Institute should not issue an official directive indicating scales and charges – even under the guise of a recommendation. This disquisition, appropriately, comes under the section headed 'Relationship with clients'.

Investment in stocks and shares used to be inspired mainly by divination and occasionally by inside information of often dubious authenticity. Nowadays it is done mainly by mathematics and many firms of stockbrokers have actuaries, accountants, economists and statisticians on the strength to pin-point future trends by means of graphs and tables. If their methods were infallible then the speculative element would be removed from investment and the stock exchange would become merely an extension of that part of the Post Office which dispenses premium bonds and national savings certificates but, as Mr A. G. Touche, F.C.A., says at the end of his paper being given today (Saturday):

'The theory of investment will never be a complete guide to practice; the inadequacy of company accounts alone will ensure this. Even were a complete analysis possible, some unforeseen factor — possibly a stampede by other investors — might well upset the most careful and shrewd plans. The inadequacy of data means that intuition and luck will always count, and an art will be saved from degenerating into a science.'

Mr Touche divides investors into three categories according to their tax status and according to whether there is a sharp distinction between capital and income. There is the gross fund ('o per cent taxpayer') such as pension funds and charities; the standard rate payer ('40 per cent taxpayer') which includes most individuals and, ignoring profits tax, companies; and the highest taxpayer ('90 per cent taxpayer'). He defines in turn the types of long-term investments available ('equities' and 'money stocks'), considers the impact of inflation on both capital and income and reviews the factors which the investor should assess before buying. These include dividend and income yields, growth prospects, management and extraneous influences like the state of trade, the political climate, and the psychology of other investors. He concludes by indicating the possible effects of some of these on the fortunes of each of his three categories of investor.

Mr Touche compresses all this into fifty-eight

erudite paragraphs without apparently omitting an essential point. His paper makes hard but rewarding reading and if small practitioners need comfort, they must surely find it in the fact that if they take Mr Smith's advice (in his section on relationship with other professions) and refrain from acting as investment advisers to their clients they will not need to master, as Mr Touche manifestly has, the esoteric art of investing in stocks and shares.

Monday's paper will be 'The training of accountants for industrial responsibilities', by Mr G. W. SEARLE, D.S.C., F.C.A. He begins disarmingly by stating that his address is not the work of a specialist or the fruits of considerable research and then goes on to make a series of very discerning observations on the essential qualities which an accountant who sets out on a career on industry must possess and how he must deploy them. Mr SEARLE groups the industrial responsibilities into four sections - the purely accounting function; costing and budgetary control; trading and financial estimating and forecasting; and the treasury function, i.e. the management of the company's financial resources. He also makes many valuable comments on the most appropriate kinds of preparatory training for industry both before and after qualifying.

When commenting on the Institute's summer course at Cambridge in July, we made reference to the geographical and occupational representation of the 140 members attending. On that occasion, nearly half came from London and eighteen from Birmingham and district. At Oxford, about a hundred hailed from London, about fifteen each from Birmingham and Liverpool and ten from Manchester. Again there were seven members from abroad to whom may be added five guests of the Institute from professional bodies in Australia, Canada and New Zealand. The ratio of members in practice to members in industry rose from 3:2 at Cambridge to 4:1 at Oxford and, once more, the accent was on youth. The oldest member present was admitted in 1915 - before about threequarters of the other members in residence were born - and the youngest in 1962. Altogether, seventeen were admitted to the Institute or Society in the 1920s or earlier, fifty-three in the 1930s, thirty-four in the 1940s, 127 in the 1950s and twenty-three in the 1960s.

# Short-term Gains – X

### LOSSES: IDENTIFYING ASSETS SOLD

NE of the principal arguments against a capital gains tax is that once one leaves the field of the professional speculator, who is already taxed as a trader, the volume and amount of losses is so high that any provision for loss relief tends to reduce the yield of the tax very considerably; even in a period when the value of money is falling fairly rapidly. For that reason it was feared that the new legislation might grant either no loss relief at all, or a very limited amount of loss relief. This fear has not been realized, for section 10 (4) of the Finance Act, 1962, provides that

'the losses allowable under Case VII against gains accruing to a person in any year of assessment shall consist of any losses accruing to him in that or a previous year from any chargeable acquisition and disposal, that is to say, from his acquisition and disposal of assets in such circumstances that a gain accruing from it would have been chargeable under Case VII'.

The loss is to be treated as accruing at the same time as would the gain, and is to be computed on the same principles. It follows that where all the conditions for Case VII liability are satisfied, but the computation produces a minus figure, then that minus figure is a loss available to be set off in the same or any subsequent year. But this Case VII loss is available only against Case VII gains, and not against income generally. On the other hand, losses which are available against income generally, i.e. Case I trading losses on which section 341 relief is claimed, are available against Case VII income equally with other income (section 10 (5)). The subsection removes all doubt about double allowance by providing specifically that in so far as a loss has been allowed against other income, it is not also allowable against Case VII. Equally, where relief for loss has been allowed against Case VII income, it cannot be also allowed against other income. This neat and watertight system of loss relief may be compared with the similar provisions in the case of Case VI losses.

It will be recalled that Case VII liability is confined to persons resident and ordinarily resident in the United Kingdom. An individual so resident who is not domiciled in the United Kingdom is not to be charged in respect of Case VII gains arising to him outside the United Kingdom except on the amounts received in the United Kingdom. Such amounts are treated as income accruing on the date of receipt in the United Kingdom (section 10 (6)). The subsection provides expressly (and logically) that losses arising outside the United Kingdom are not available for relief. To complete the picture as regards this remittance basis income, one must refer also to section 16 (2) which deals with the construction of references to amounts 'received in the United Kingdom'. It says:

'there shall be treated as received in the United Kingdom in respect of any gain all amounts paid, used or enjoyed in or in any manner or form transmitted or brought to the United Kingdom'.

The draftsman has not followed the form of words in section 132 of the Income Tax Act, 1952, in relation to the Case V remittance basis. In any case, the difficulties as to identifying remittances with particular gains remain. However, section 24 of the Finance Act, 1953, which was passed as a result of the House of Lords decision in C.I.R. v. Gordon (31 A.T.C. 165) and deals with devices for avoiding tax by means of loans, is expressly applied to Case VII.

A gift in settlement falls to be dealt with under section 12 (3) (adoption of market value) and under paragraph 3 of the Ninth Schedule (gifts) as though it were a gift to the trustees of the settlement, even though the settlor is trustee. However, if the settlor or his spouse can by any means (even though it requires someone else's concurrence) obtain for himself or his spouse any beneficial interest, there can be no question of the settlor obtaining any loss relief by reference to his disposal by way of settlement (paragraph 4 (1)). This is so even if the two spouses are not living together. Where they are living together, and there is any transfer of an asset from one to another, the disponor is not chargeable under Case VII, and accordingly cannot claim any loss

relief either (paragraph 6 (1) (a) and section 10 (4)). At the same time, the disponee is to be treated as if the disponer's acquisition was the disponee's acquisition—with the consequences dealt with in paragraph 18 (paragraph 6 (1) (b)). The legislation says nothing about setting one spouse's Case VII loss against the other spouse's Case VII gain. However, provided that they are living together in the income tax sense, then such set off follows from the general rule as to treating a wife's income as belonging to her husband for income tax purposes.

It is no secret that the main target of the new tax is the casual speculator in shares. It is a peculiarity of shares that one share of the same class is indistinguishable from another; so much so that, in the case of fully-paid shares, companies have been relieved since 1948 from giving shares distinguishing numbers. It follows that a buyer of shares of a particular class is not normally interested in any specific shares. From the seller's point of view, however, it is obvious that the sale of shares which he acquired after April oth, 1962, and within the previous six months may have very different consequences from the sale of other shares of the same class. If he began April 1962 with a large holding of, say, Consolidated Britons, he might want thereafter to speculate in the same shares. If the speculation is successful, he purports to sell shares of the old holding; if the speculation is unsuccessful, he purports to sell the most recently purchased ones. Thus at will he could avoid tax on capital gains but obtain loss relief. However, the draftsman of the Finance Act, 1962, has foreseen this avenue of avoidance, and has taken counteraction in paragraph 8 of the Ninth Schedule. The paragraph speaks of 'shares' which are defined in section 16 (1) as including stock. However, paragraph 8 (9) says that paragraph 8 applies in relation to a disposal of any assets as it does to shares 'where the assets are of a nature to be dealt in without identifying the particular assets disposed of or acquired'. The cross-heading to paragraphs 8 and 9 is 'Dealings in marketable securities, commodities, etc.' which apparently is intended to cover shares and the assets referred to in paragraph 8 (9). The adoption of the expression 'marketable securities' as a general expression is not a very happy one. It seems to have been taken from the Stamp Acts, in which Acts it does not include shares. Moreover

the word 'marketable' has a specific and restricted meaning for stamp duty purposes. We will here refer to 'shares', as does the paragraph itself.

Paragraph 8 contains a complicated code of rules for identifying the shares which are the subject of a disposition; which rules override any purported identification by the disponor himself. Needless to say, the shares disposed of must in any case be identified with shares which could be comprised in the disposal. Moreover, paragraph 8 is not to operate so as to identify shares disposed of with shares which the disponor holds (or can dispose of) only in another capacity, e.g. as trustee. Identification under the paragraph 8 rules operates for all the purposes of Case VII. Where acquisition by one person is deemed to be an acquisition by another person (see e.g. paragraph 3 (1)) then the rules apply accordingly. Sub-paragraphs (3), (4), (5) and (6) of paragraph 8 contain the main rules for identification, the earlier taking priority over the later. The first rule is that earlier disposals must be identified before later ones, and the earlier identification accordingly determines what shares could be comprised in the later disposal (paragraph 8 (3)).

Paragraph 8 (4) is as follows:

'Shares disposed of for transfer or delivery on a particular date or in a particular period –

(a) shall not be identified with shares acquired for transfer or delivery on a later date or in a later period; and

(b) shall be identified with shares acquired for transfer or delivery on or before that date or in or before that period, but on or after the date of the disposal, rather than with shares not so acquired.'

The 'particular period' which the draftsman has in mind is no doubt a stock exchange account; normally a fortnight. However, it is not expressly confined to that, and sub-paragraph (a) seems to have some strange implications. Suppose the taxpayer sells one hundred Consolidated Britons for delivery 'in the three weeks ending December 31st, 1962' and he buys one hundred Consolidated Britons for delivery 'in the three weeks ending January 7th, 1963' these being the only two transactions the taxpayer ever had in Consolidated Britons. This might be an unwise transaction, since he may find himself unable to deliver on time. But disregarding this aspect, does subparagraph (a) mean that in this way the taxpayer may avoid Case VII liability? (To be continued.)

# American Profession's Founding Fathers

by MARY E. MURPHY, Ph.D.(Lond.), C.P.A.

CELEBRATION of the seventy-fifth anniversary of the foundation of the American Institute of Certified Public Accountants coincides with the holding of the Eighth International Congress of Accountants in New York this month. This article has been prepared to pay tribute to some of the founding fathers of the American profession.

Early steps taken by practitioners in America to achieve professional solidarity were faltering and, in most cases, doomed to failure. After a preliminary meeting of accountants at the Astor House, the Institute of Accountants and Book-keepers in the City of New York was incorporated in July 1882, with the following objectives:

To elevate the standing and advance the interest of public accountants; and to direct attention to advantages offered by, and the safeguards attending, the auditing and adjusting of books and accounts by persons thoroughly skilled and experienced as public accountants, and of established personal reputation.

The society later shortened its name to the Institute of Accountants. Its membership included accountants who were not in public practice, but a considerable number of its charter and later members were so engaged. It has been described as an association of those 'interested in the advancement and improvement of the science of accounts and account-keeping'.

#### Achievement of Professional Solidarity

Membership of the body was open to all individuals who could pass rigid examinations, and Institute certificates, although not supported by legislative enactment, permitted members to designate themselves 'Certified Accountants'. In 1897, the Institute endeavoured to establish itself on a national basis but its efforts ended in failure. The general public had little conception of what public accountancy implied, and refused to accord it recognition as a profession. The importance of this initial effort at professional organization accrues from the fact that the Institute introduced fitness tests for those seeking membership, emphasized the role of the public accountant in business affairs, and worked to secure the enactment of State laws recognizing the accounting profession.

An important contribution to the promotion of professional unity was made by a Lancashire man. He was James Thornley Anyon (1851–1929), the American representative of Barrow, Wade, Guthrie & Co, who invited all practising accountants to his office at 45 William Street in New York City on December 22nd, 1886, to discuss the possibility of

organizing an American professional society comparable to The Institute of Chartered Accountants in England and Wales. Deserting their somewhat slender practices, six men appeared at the appointed place and Edwin Guthrie (1841–1904), who was visiting the United States, was accorded the chair because of his long experience as a member of the Council of the English Institute.

The eloquent Guthrie explained that when he had visited America three years before, he had discovered almost no accountants in practice, and the profession since that date had not materially progressed in public recognition. He described the steps taken by English practitioners to attain organization After prolonged recognition. discussion, John Heins (1836–1900), who had come from Philadelphia especially for the meeting, introduced a motion calling for the establishment of an association dedicated to the advancement and protection of the interests of the profession. James Anyon moved that the name of the new society should be the American Association of Public Accountants. Upon the adoption of these two motions, the first society of public accountants in the United States was formed.

#### **Early Objectives**

The certificate of incorporation of the Association, signed on August 20th, 1887, contained the following statement of objectives:

"The particular business and object of such society is to associate into a society or guild for their mutual benefit and advancement the best and most capable public accountants practising in the United States, and through such association to elevate the profession of public accountants as a whole, and to promote the efficiency and usefulness of members of such society, by compelling the observance of strict rules of conduct as a condition of membership, and by establishing a high standard of professional attainment through general education or otherwise; and to transact such business as may be necessary and incident to the establishment and conduct of an association for the foregoing purposes.'

James Yalden was chosen President; John Heins, Vice-President; James T. Anyon, Secretary; and William H. Veysey, Treasurer, of the new association. As the founding fathers of the profession were familiar with the designatory initials of The Institute of Chartered Accountants in England and Wales, they divided the membership of the American body into 'Fellows' and 'Associates', choosing the letters F.A.A. for the original incorporators of the organization and for those who subscribed to its constitution and by-laws, and also for all persons who had prac-

tised as public accountants for three years before seeking admission. The initials A.A.A. were selected for the Associates, the group consisting of individuals who obtained a certificate stating that they had successfully passed the examinations set by the Association.

At its 1894 meeting, however, the Association directed attention to the development of accounting standards by resolving:

"That the method of stating assets and liabilities on a balance sheet should be in the order of quickest realization . . . making the total of the same, and balance with the surplus or capital properly apportioned to the partners or stockholders as may be.'

At this same meeting detailed consideration was given to ethical questions, with the following resolution adopted:

'That all members of the Association be prohibited from advertising in any shape or manner their vocation and calling and setting forth the nature or special features of their business, but that the insertion of a card in any regular authorized journals or papers indicating their profession and giving address etc. is permissible.'

Professional accounting organizations continued to engage in wishful thinking rather than action, relative to the enactment of suitable legislation which would both recognize and promote the profession, bestow merit upon worthy practitioners, and permit them to use a descriptive title which would serve to separate them from non-qualified persons. Seeing that more progressive action would have to be taken, the President of the Institute of Accountants during the winter of 1894-95 had drafted a Bill providing for the professional education of account-. ants and the securing of the title for them of certified public accountant. By this Bill, which was to remain unaltered in future years, except in a few administrative details, the Regents of New York State were placed in charge of the C.P.A. certificate examinations.

The American Association of Public Accountants also had introduced a Bill in February 1895, but neither this measure nor the one sponsored by the Institute became law. In November 1895 the Association again introduced a Bill which was signed by Governor Levi P. Morton on April 18th, 1896, and this on August 17th, 1896, became an Act to Regulate the Profession of Accountancy in the State of New York.

#### First Examination Board

The first board of examiners was composed of Charles Waldo Haskins (1852-1903), of Haskins & Sells, a leader in the profession and in education for the profession, as chairman; the members being Frank Broaker (1863-1941), of Broaker & Chapman, the person who deserved the most credit for the enactment of the measure; and Colonel Charles E. Sprague, Ph.D. (1842-1912), President of the Dime Savings Bank and author of the classic volume *The Philosophy of Accounts*.

Under the New York law, the right to use the title, 'certified public accountant', was held out as a distinction to public accountants who voluntarily proved their right to it by satisfying the State requirement, and there was no provision for recognition or regulation of practitioners who did not seek the certificate or who were unable to satisfy requirements for it.

This permissive type of legislation was followed by the other States and territories until 1924, when modern regulatory measures were introduced in Maryland and later in seventeen other States, setting minimal standards of competence for all individuals seeking entrance to the accounting profession. Waiver clauses – obviously undesirable attempts to lower professional standards – have cast their doubtful shadows over professional development from time to time, in New York State as early as 1901 and as recently as 1947. But standards have been raised in some instances, such as in New York in 1938, when a college degree was made a prerequisite for admission to that State's C.P.A. examination.

#### **Professional Standards**

In the first decade of this century, the reputation of British accountants practising in the United States was unassailed, and their membership in recognized British societies entitled them to respectful attention on the part of fellow practitioners and business men alike. This state of affairs was the subject of several editorials in professional periodicals, of which the following quotation from the *Journal of Accountancy* for April 1907 is representative:

'While the young accountant is today beginning his career with an education equal to that of the young English accountant the same equality cannot be predicated when we compare Scotch and American requirements. A Scottish chartered accountant, in addition to examinations in all the subjects required in England, must also pass examinations in actuarial science and political economy. Scotland, therefore, must now be ranked as the pace-maker in the education of accountants. Let us hope that within ten years the educational standard in the United States will have risen from the English to the Scotch level, and perhaps have gone a few notches higher.'

Many American companies favoured the employment of British trained accountants, and this trend was noted by some struggling practitioners who bitterly resented what they called the intrusion of their sacred professional precincts. No one was more aware of prevailing conditions than the English periodical, *The Accountant*, which counselled forbearance in the face of 'the general prejudice on the part of the American public in favour of British professional accountants, which American practitioners may well hope to remove eventually by patient well-doing' (September 4th, 1909, issue).

For almost the first five years of this century, little attention was devoted by the accounting profession to the formulation of standards of ethical practice. However, after the American Association of Public Accountants began to publish *The Journal of Accountancy* in November 1905, a definite trend was evident toward the clarification of basic tenets of conduct in both editorial comment and signed articles.

Through his professional life, Joseph E. Sterrett (1870-1934) alligned himself with all movements devoted to the elevation of accounting standards. After playing a prominent part in the formation of the Pennsylvania Institute of C.P.A.s and the enactment of the Pennsylvania C.P.A. law, he was honoured by appointment to the State board of examiners and served as chairman of the Institute's committee on education which arranged for evening courses in higher accountancy at the University of Pennsylvania. He served as secretary of the Pennsylvania Institute from 1897 to 1900 and was President from 1904 to 1906. Sterrett delivered many papers on the necessity of outlining a professional code for C.P.A.s; his effort led to the Association's bye-laws including rules of conduct for the first time in 1907.

In 1902, George Wilkinson (1860–1932), then President of the Illinois Association of Public Accountants, reviewed the situation as it then existed; he pointed out the isolation of the State societies and their inability to cope with national affairs, and gradually unfolded a plan for the co-ordination of all existing organizations by the formation of a federation of societies of public accountants.

#### **National Federation Formed**

At this same meeting, members of the Illinois Association unanimously adopted a resolution to the effect that it was desirable to form a national federation, and appointed a committee consisting of A. Lowes Dickinson (1859–1935), John A. Cooper (1850–?), Allen R. Smart (1863-1940), Charles W. Haskins and Ernest Reckitt (1877-1955), to draft a plan for such a federation. All of these men, except Haskins, had been born in England. The plan offered by the committee was presented to a convention held in Washington, D.C., in October 1902, attended by duly elected delegates of all the established societies, and an organization entitled the Federation of Societies of Public Accountants in the United States of America was established. Officers were elected and a constitution and by-laws adopted. Subsequently the scheme was submitted to the constituent societies for ratification. As honest differences of opinion existed, the constitution and by-laws adopted differed from the project first prepared by the Illinois Association Committee. The following is a statement of the Federation purposes:

"To bring into communication with one another the several associations and societies of public accountants, organized or to be organized under the laws of the several States of the United States of America; to encourage the formation of State associations of public accountants in States in which they do not exist; to encourage State certified public accountant legislation on uniform lines; to

secure Federal recognition of the profession of the public accountant; to facilitate and assist the training of young members of the profession, and to establish a uniforn standard of efficiency in Federated societies; to disseminate throughout the United States a general knowledge of the objectives of the Federation and of the utility of the public accountant in the industrial and financial development of the country; to further the interests of the profession of the public accountant generally.'

Officers of the Federation were Charles W. Haskins, President; George Wilkinson, Secretary; and Robert H. Montgomery (1872–1953), Treasurer. As Haskins died shortly after assuming office, Farquhar J. MacRae, President of the New York Society, was chosen to fill the unexpired term. The contribution of the Federation to the profession's advancement cannot be over-emphasized.

#### First International Congress of Accountants

Under the auspices of the Federation, the first International Congress of Accountants was convened in September 1904 in the grounds of the Louisiana Purchase Exposition at St Louis. A. Lowes Dickinson was chosen chairman of the Committee on Arrangements which nominated Joseph E. Sterrett as chairman, and George Wilkinson as secretary of the Congress, while George O. May (1875–1961) served as chairman of the Local Planning Committee.

The 1904 Congress was one of the most important accounting conferences ever held in the United States. As it was convened at a time when the American Association had a membership of only 140 (living in fifteen States, of whom eighty-one held C.P.A. certificates), the New York Society, one hundred, and the State societies which were members of the Federation, 200, great courage was shown in calling an international meeting of accountants.

The following are pertinent extracts from George Wilkinson's paper on the C.P.A. movement, delivered at the 1904 Congress:

'During the early years of the C.P.A. movement grave doubts existed in the minds of some of the ablest accountants in the country as to the utility of a legal designation. "It will be an equalizer," they said. "The penny accountant on the side street will be placed on a legal equality with the best of the land." They asked, "Why should I exert myself, or contribute funds, in behalf of legislation that will only benefit the little fellow?" These are the questions of the short-sighted men who call themselves "conservatives" because they are content with the existing order of things, so far as putting forth any personal effort goes, but who are generally found among those who are bemoaning their sad fate and complaining that their business is going to the "bow-wows". . . . It is true that the little fellow has been benefited. In receiving his certificate he has felt the uplift of a legal designation; the best that is in him shall henceforth be devoted to the profession. But the accountant with the wellestablished practice has not suffered by the enactment of State laws, for what is good for the entire

body works to the advantage of each of its mem-

'If we are to advance our calling to the point where it shall be recognized by the Federal Government as a dignified and learned profession, we must advance by equal strides in every State - East and West, North and South. Our demand for recognition, to be heard in the legislative halls of our national capital, must come simultaneously from

every section of the country. . . .

'Before we seek legislation, we should firmly and fully establish the legal designation of C.P.A. After a majority of States and all the important ones have enacted C.P.A. laws, and the fact is recognized by the public that the best practitioners are certified, we can seek laws to compel corporations, in which the public are interested as investors, to have their balance sheets audited by legally recognized accountants.'

#### **Amalgamation of Societies**

Participants of the 1904 International Congress reached the decision that the American Association of Public Accountants and the Federation of Societies of Public Accountants in the United States of America should be amalgamated, with the aim of attaining greater professional solidarity.1 A committee was appointed to consider the proposition, and it subsequently outlined a plan of consolidation under which the Association was the continuing organization after amendment of its constitution and by-laws. Finally - just one year and one month after the International Congress - in October 1905, the merger was effected under a constitution which provided for individual and State society memberships, and with the objectives of elevating the profession and spreading the knowledge of C.P.A.'s usefulness in the business

The twenty-first annual meeting of the American Association at Atlantic City, in October 1908, proved to be the largest gathering yet held by the group. More than 230 delegates, members and guests registered, including forty representatives of the British and Canadian societies, and the papers delivered were of uniform excellence. At that time, the Association had a membership of 734 (United States population, 70 million) consisting of the members of the various State societies affiliated with the national group and of certain other individuals, not members of any affiliated society, who were known as members at large.

Sixteen of the States - California, Colorado, Connecticut, Florida, Georgia, Illinois, Louisiana, Maryland, Michigan, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Utah and Washington had enacted C.P.A. Bills; while four other States -Massachusetts, Minnesota, Missouri, and Tennessee although they had attained no such legislation, maintained associations of practitioners affiliated with the American Association. Of the former number, however, C.P.A.s of Connecticut, Florida, and Utah were not vet connected with the national body. As the internal laws of each State varied in regard to matters with which accountants were concerned, it was only questions of general professional interest which came under the purview of the Association.

#### **Outside View of Growing Profession**

The November 7th, 1908, issue of Collier's Weekly covered the Association meeting of that year with the following editorial:

'A fresh field for young men of ability is being opened up. The C.P.A.s of this country and of Great Britain and Canada met in convention a few days ago at Atlantic City. There were London worthies, with huge jewelled seals around their necks, as though they are going to a Lord Mayor's banquet - typical "City" men, those as Thackeray might have drawn them, rather proud of the fact their clerks feared the business would go to the bow-wows when the "governor" was away, convinced that the good old English employee is degenerating under the present-day love of ease and amusements. There were men from Edinburgh and Dundee - the Scots are great accountants, and it was in Scotland some fifty years ago that accounting as a profession was first established, and there were men from Montreal and Toronto and all over the United States. . .

"The growth of the profession has followed the growth of corporations and holding companies. It is the business of these painstaking and meticulous gentlemen to unravel and set in order the complexities which sound businesses produce. They will take a business which your grandfather set on its feet, and which you and his other decadent descendants are mismanaging, find out just where the dry rot lies, and put the house in order. It is uncomfortable for you, but good for the business. They will systemize anything, from a household account to the budget of a Government. This is a profession worth the consideration of young men with a turn

for mathematics.'

The American profession was to grow and flourish. The growing pains experienced in the nineties and in the beginning years of this century were essential to professional maturity and public recognition. A debt is owed by the present generation to those farsighted practitioners in eastern cities and, more recently, in the middle and far western sections of the country who laboured for State legislation and State societies. Without their efforts, American accountancy would have lacked the cohesive organization long enjoyed in Great Britain, as well as the unification of principles and standards which were important aspects of the development of the accounting profession in the twentieth century.

<sup>&</sup>lt;sup>1</sup> At that time practitioners without C.P.A. certificates were more numerous than those possessing them. The Federation had grown slowly chiefly because it admitted only one society from each State, and only if it were composed entirely of public accountants with at least seven regular members. As each State enacted its own C.P.A. law governing practice within its limits, and as there was marked divergency between these laws and almost no reciprocity between States, serious doubt had been expressed as to the ultimate success of the Federation.

# Forming a Company in Switzerland

#### CONTRIBUTED

VER a thousand American companies have based their European operations in Switzerland. Many more are now doing so, and some prominent American corporations are creating their world financial headquarters there. As other overseas firms contemplate moving into Europe, their accountants will increasingly be asked to explore the advantages of using Switzerland as a base.

There are many good reasons. Switzerland, though not a member, is at the geographical centre of the European Economic Community, with excellent communications. The country has a long record of political and economic stability and a banking system of international renown. The customer's interest is strongly protected by strict laws on banking secrecy. Swiss authorities are encouraging the development of foreign business by favourable taxation to companies who have no commercial activities in Switzerland. Such encouragement is based on a realization that the Swiss economy of the future will increasingly depend on its becoming a 'service centre' for the European Economic Community, whether Switzerland joins the Common Market or not. Switzerland has concluded double tax agreements with all the major industrial countries except Italy and Japan, a question of particular importance in licensing and certain investment holding operations. And finally, there is no exchange control in Switzerland.

#### Taxation of Foreign-owned Companies

Since more and more accountants are being asked for details of the international tax position of European operations, it is helpful to consider the major points concerning Swiss taxation of foreign owned companies and to bear in mind the variations in taxation of different types of companies. There are three types of companies of particular interest to outside commercial interests. They are:

#### 1. The investment holding company

In certain cantons an investment holding company can be formed and, provided the Swiss company holds 20 per cent or more of the equity of non-Swiss companies, no tax is levied on profits. The only tax to be paid is a capital tax of approximately 5 per cent on the paid-up capital. Since holding companies are usually formed with a capital of 50,000 Swiss francs (£4,100), this tax amounts to less than £25 per annum. Accordingly, any foreign company which has decided on trade investment or joint ventures in European companies as its method of entry into Europe would do well to consider the additional flexibility obtained at very little cost by forming such a holding company.

#### 2. The patent holding company

A company whose sole object is to hold and exploit patents or trade-marks can be formed as a domiciliary company in certain cantons; Federal defence tax of 8 per cent is paid on the company's profit but no cantonal or communal tax is paid. The capital tax of ·5 per cent is also levied. By virtue of the various double tax agreements, royalties are paid direct to Switzerland without deduction of withholding tax in the principal industrial countries.

Since Switzerland geographically provides an ideal operating base for the servicing staff of any licensing operation, the combination of geographical and fiscal advantages deserves serious consideration by any company conducting extensive overseas licensing operations in the European Economic Community or elsewhere.

#### 3. The export sales subsidiary

Any company exporting a volume in excess of £25,000 per annum should consider the possibility of forming a subsidiary sales company in Switzerland. Once formed, all export orders are sent by agents or customers to the Swiss company, who in turn order from the overseas parent company. The goods, of course, are shipped direct. The principal financial advantage in this operation lies in the subdivision of total profit into a manufacturing profit taken in the parent country, taxed accordingly, and a merchanting profit taken in Switzerland. This merchanting profit, due to special legislation in certain cantons, is taxed at only 13 per cent, allowing larger after-tax profits to be employed for expansion.

The financial advantage is not, of course, the only reason. In practice, companies which have set up this organization have found that the creation of their own subsidiary has created

opportunities which they would otherwise have missed. Furthermore, many continental customers have commented that they feel the creation of a Swiss subsidiary by an overseas exporter is evidence of a real determination to cater for their special needs. And finally, cheaper finance is usually available in Switzerland than, for instance, in the United Kingdom.

#### **Formation Costs**

To form a Swiss company costs about £300. The minimum capital required is 50,000 Swiss francs

(£4,100) and organizations exist which will initially administer the company for an annual fee of the order of £450 – a much cheaper proposition than setting up an office and employing well-paid full-time executives. At a later date, as the company becomes firmly established, expansion into its own offices with full-time staff can take place, but only when this is justified by results. In the United Kingdom, Bank of England and Treasury approval will usually be granted provided that there are genuine commercial reasons for the creation of a Swiss company.

# If it is not Trade, What is it?

by T. J. SOPHIAN

USEFUL illustration of the type of dividend-stripping transaction at which section 4 of the Finance Act, 1955, is aimed, is afforded by the case of Griffiths v. J. P. Harrison (Watford) Ltd (41 A.T.C. 36; [1962] 2 W.L.R. 909).

#### Facts of the Case

The taxpayer company in this case was incorporated in 1948 and carried on the business of merchants down to a date in 1953/54, when that business ceased. In the same year it had incurred a loss of £13,585 which would, cet. par., have entitled the company to have its income for the year adjusted under section 341 of the Income Tax Act, 1952. In October 1953, the company altered its memorandum so as to enable it to carry on the business of dealing in stocks, shares, bonds, debentures and other securities.

On December 4th, 1953, the company purchased for the sum of £16,900 all the issued share capital of J. B. Ltd, consisting of 1,000 £1 shares, J. B. Ltd having ceased business some four days previously, on November 30th, 1953. In order to purchase, the company borrowed £15,900 from another company, the shares being bought on a blank and unregistered transfer which, was passed on to a sub-purchaser from the taxpayer company, to whom, on or about January 16th, 1954, it had resold the shares for  $f_{11,000}$ , so that no stamp duty became payable on these transactions. Accordingly, the taxpayer company showed a loss of £16,900 less £1,000 (the price received on the sub-sale), i.e. a loss of £15,900, which was equal to the sum borrowed in order to pay for the shares.

J. B. Ltd, which had in the meantime altered

its name to C. Ltd, had considerable accumulated profits in its business. It was, in fact, to use the commonly used phrase, 'a company pregnant with dividends'. On January 16th, 1954, C. Ltd declared a dividend of £28,912 13s 3d less tax of £13,010 14s 0d, the net dividend being £15,901 which will be recognized as virtually the amount which the taxpayer company had paid for the shares in the company and had borrowed to pay for them. This dividend was then applied to pay the creditor who had lent the money to pay for the shares. All these steps were carried on pursuant to the necessary resolutions which the taxpayer company had passed on January 16th, 1954.

#### Is this Trading?

If the company could be regarded as having carried on a trade in the purchase and resale of these shares, then it would have made a trading loss of £15,900 which could be set off against income under the loss provisions of section 341 of the 1952 Act. This the company sought to do by claiming to set off the loss of £15,900 against the net dividend of £15,900.

The principal point for determination, therefore, was whether the company in entering into the transactions for the purchase and resale of the shares in C. Ltd was to be regarded as having carried on a trade or an adventure in the nature of a trade.

It should be observed that although this was the only share transaction entered into in the year 1953/54, the company had dealings in shares in the following year, and it was not disputed that in that year the company was, in fact, carrying on the business of dealing in shares. The Commissioners nevertheless held that the com-

pany was not carrying on a trade in purchasing and reselling the shares of C. Ltd in 1953-54. Their determination was based on the facts: (1) that this transaction was an isolated one; and (2) that the object with which the company entered into this transaction was to obtain a dividend against which it could claim to set off losses.

#### **Essentials of Trading Operations**

The question whether trading has been carried on is a question of fact, or rather, one might say, an inference to be drawn from all the admitted and proved facts of the particular case. Taking the first ground on which the Commissioners based their finding, viz. that the transaction was an isolated one, sufficient regard, it seems, was not paid by them to the fact that in the following years a number of similar transactions were entered into by the taxpayer company, which clearly constituted trading. Nor is authority wanting that even an isolated transaction may constitute trading. Thus, where a contract was entered into to purchase a large surplus stock of linen from the Government and take delivery of the whole in six months, and the taxpayer rented an office and set up a large and skilled organization to dispose of it in smaller quantities, the House of Lords held that the transaction, although isolated, nevertheless constituted trading. (Martin v. Lowry (6 A.T.C. 123; 11 T.C.

The point in the present case, however, which presented more difficulties was the extent to which, if at all, the object with which a transsaction was entered into can determine its character. It was clearly found as a fact that the object with which the company purchased its shares in C. Ltd was to obtain a dividend against which it could claim to set off losses. In other words, it was to enable the company to create a claim for the recovery of tax from the Revenue. Expense incurred for such a purpose has been held not to be a trading expense. In Smith's Potato Estates Ltd v. Bolland (27 A.T.C. 131; 30 T.C. 268) the House of Lords held that the costs of prosecuting a successful appeal against the disallowance of an increase of salary to a servant of a subsidiary company were not an admissible deduction for income tax or excess profits tax purposes, since the expenditure was not for the purpose of enabling the taxpayer to carry on and earn profit in the trade.

It was accordingly argued in Griffiths v. J. P. Harrison (Watford) Ltd, on behalf of the Revenue,

that as the object of the transaction was to create a claim for loss relief against the Revenue and not to earn a profit, the transaction was not of a trading character. Although this argument found favour with a minority of the Court (Lord Reid and Lord Denning), it was rejected by the majority.

#### **Majority View**

Viscount Simonds, for instance, pointed out that although many observations had been made to the effect that trade is carried on with a view to profit, such a proposition was not universally true; nor could it be tested merely by ascertaining the difference between the purchase price or manufacturing cost, on the one hand, and the selling price of the article on the other.

'For a dealer may seek his profit, if a profit is essential, otherwise than by an enhanced price upon a resale, as by a declaration of dividend, a repayment upon a reduction of capital or on a liquidation of the company whose shares he has bought. . . . It appears to me to be wholly immaterial . . . what may be the fiscal result or the ulterior fiscal object of the transaction.'

Nor is authority lacking of cases where it was held that there had been trading, although there was no intention or attempt to earn a profit, as in C.I.R. v. Incorporated Council of Law Reporting ((1888) 22 Q.B.D. 279; 3 T.C. 105); Carnoustie Golf Course Committee v. C.I.R. (8 A.T.C. 201; 14 T.C. 498); and C.I.R. v. Stonehaven Recreation Ground Trustees (8 A.T.C. 523; 15 T.C. 419).

Viscount Simonds stressed these important factors:

'Here was a company whose object was to deal in shares. [The company had expressly altered its memorandum to include this object.] It entered into a commercial transaction which, though it might be given a invidious name, contained no element of impropriety, much less of illegality. I can find nothing that enables me to say that it is not a trading transaction, and echo the question asked by the majority in the Court of Appeal, "If it is not that, what is it?".'

It was accordingly held by the majority that the transaction was a trading one, and the company automatically became entitled to set off the loss on the resale of the shares against the dividends.

It should be pointed out once again that this decision turned on an event which occurred before the introduction of the dividend-stripping provisions of the Finance Act, 1955.

# Insurance and the Accountant-III

by DAVID WILLIAMSON F.C.A., F.C.W.A.,

#### X. MOTOR VEHICLE INSURANCE

#### **Private Cars**

HE basic premium cost of private car insurance is governed by:

(a) the capacity of the engine;

- (b) the type of usage of the vehicle, i.e. business or private;
- (c) the type of district in which the vehicle is habitually garaged;

(d) the estimated value of the vehicle;

(e) the extent of the insurance cover, which may include a good deal beyond the statutory requirements; this is commented upon in the paragraphs that follow.

74. In dealing with the cover provided, I think you will agree that the standard 'comprehensive' private car policy is a remarkable document. Look at the differing nature of the various risks it covers:

(a) It provides unlimited cover for legal liability of the insured towards third parties, including

legal costs properly incurred.

This cover includes the compulsory third party insurance required by the Road Traffic Act, and, in fact, goes beyond the Act requirements in that it also covers passengers in the car, and damage to third party property.

(b) It indemnifies the insured for loss or damage to the vehicle itself – up to a specified limit; the loss or damage covered includes fire and theft, also loss or damage whilst in transit by rail or by a short sea journey, though not by air.

The accountant should note that the value of the vehicle declared has remarkably little effect on the cost of the insurance: it does not even represent the amount that would be paid if the vehicle were totally destroyed. Instead, the value declared in the policy represents the maximum liability of the insurers for indemnification of the insured for the loss of the vehicle; if the vehicle were a total loss the amount that could be paid – subject to that maximum – would be the market value of a vehicle of similar make, age and condition. Obviously, therefore, you should ensure that the values declared for your company's various motor vehicles are fully high enough – rather than on the low side.

- 75. Apart from these main forms of cover the policy will usually provide the following additional cover:
  - (a) it provides limited cover for personal property lost by fire, theft or accidental damage; it

The concluding part of a paper presented at the Summer Course in Cambridge of The Institute of Chartered Accountants in England and Wales.

- should particularly be noted that the maximum total indemnity here is usually £20 unless specifically increased;
- (b) it provides indemnity for medical expenses in connection with accidents – again subject to a somewhat low maximum indemnity unless specially arranged;
- (c) if the insured is a living person as distinct from a limited company – it indemnifies him for personal accident (capital benefits only) – provided that he is not over 65 years of age.

76. You should particularly note that the protection afforded by the entire policy is conditional upon:

- (a) The usage of the car, e.g. business, pleasure, etc., being in accordance with the description inserted in the proposal form on which the policy is based.
- (b) The driver being within the definition in the policy and being licensed to drive

and also that as regards liability to passengers for injury, you are only covered for *legal* liability – if you want to arrange personal accident cover for passengers which will come into force without their having to claim at Court, you must specially provide this cover.

77. Special considerations arise where employees are expected to use their own cars in the course of their duties; the matter can be of great importance, even where the usage is only occasional. It is worth setting out in some detail:

(a) The employee's own insurance position. This can be subdivided into two aspects:

(i) The employee's third party cover.

- (ii) The employee's fire, theft and accidental damage cover.
  - (1) Third party cover. For the employee's third party cover to be fully effective, his policy should cover business use of the car. Class I insurance policies normally give the following cover:

Use for social, domestic and pleasure purposes, also use by the policy-holder in person in connection with his business or profession, but excluding use for commercial travelling, or for the carrying of goods or samples, in connection with any trade or business, or use by surveyors, inspectors or collectors.

The employee should be advised to give his insurer details of the use to which he is putting his car whilst on company business, and to obtain confirmation that the policy remains effective.

- (2) Fire, theft and accidental damage cover. The mileage payment to the employee should allow for full comprehensive cover and the employing company should therefore advise the employee to arrange full comprehensive cover if he uses his car from time to time on company business.
- (b) The employer's own insurance position. This can be subdivided into two aspects:
  - (i) The employer's third party cover;
  - (ii) The employer's moral liability to driver or passengers, and dependants.
    - (1) Third party cover. Where the employing company sanctions the use of a vehicle for business purposes, they may be held liable for any negligent act of the employee arising out of such use. It is therefore important that the third party section of the *employee's* policy should be extended to provide indemnity to the company whilst the car is being used on company business. It is the normal practice of insurers to grant this extension without further charge. In addition, companies can arrange contingent third party insurance which will fill the breach if an employee's policy should prove defective in any way. The premium for this type of insurance is about 7s 6d per car per annum, and is adjusted by declaration from year to year, as to the maximum number of such cars in use at any time during the year.
    - (2) Moral liability. If an employee were to be injured whilst on a business journey, the employer's liability insurance would only operate where negligence on the part of his employer was proved, and it cannot therefore be relied upon to support a claim where a moral liability, as distinct from a legal liability, exists; the proper remedy is for the employer to operate a personal accident policy for the categories of employee likely to be affected.

#### Commercial Vehicles

78. The premium rating of commercial vehicles will be governed in the first instance by:

(a) carrying capacity;

(b) the type of licence required;

(c) \( (d) \rangle as for private cars - paragraph 73 above;

but if the insured party operates a fleet of vehicles the premium rating will be modified in accordance with the next paragraph.

#### Fleet Insurance

79. If a company operates more than about ten vehicles under one insurance – private and commercial vehicles combined – the premium rates from year to year will be based upon your claims cost ratio to premiums over the past few years. This is usually satisfactory in the sense that the cost is to some extent the result of your own control of the situation; you can do something to keep down the cost of claims by various incentive schemes for drivers, as well as by giving attention to such matters as the layout of the various works areas likely to be heavily used by the commercial vehicles in particular.

80. There are one or two points in a commercial motor vehicle policy that call for mention. For instance, the standard policy does not automatically provide cover for your liability to passengers – and you may be made liable in this way if some passenger were involved in an accident, even though he proved to be an unauthorized passenger; it is therefore a

to be an unauthorized passenger; it is therefore a sensible precaution to add this form of cover. Also you may find that the cover against accidental damage to property stands at something like £50,000 for any one accident or series of accidents arising out of one event; even this sum requires consideration in the light of possibilities — accidents at a filling station or an aerodrome can have enormously costly consequences in terms of damage to surrounding property.

#### XI GOODS IN TRANSIT INSURANCE

81. Goods in transit insurance began as a form of marine insurance – it then developed as an extension of the motor vehicle policy – but it is now more usual to find this cover provided by a separate policy. You will find that the normal commercial vehicle comprehensive policy will not cover the insured against damage to goods which are in his custody and control – unless, of course, the policy has been specially endorsed to that effect.

82. Under the present-day goods in transit policy, cover commences when the loading of the vehicle is begun – and it continues until the completion of the unloading at the other end. The policy can be arranged to cover 'all risks' of loss or damage during transit, including loading and unloading. From the insurer's point of view, the main risk is theft, but he must also allow for the risks of fire and collision – and in this respect the nature of the load will have some

influence upon the rating.

83. Whilst it is usually possible to insure a single load for a specified journey, companies making regular dispatches of goods sometimes operate what is known as a 'valued declaration' policy: under this arrangement the policy is in the first place issued for a stated amount, and the insured makes periodical declarations of the total value of the goods dispatched; at the end of the year the premium is adjusted in line with the total declared against the policy. The advantage of this arrangement is, of course, that the insured does not have to notify the insurers each time he makes a

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convenient units.

84. You will find certain exclusions in the standard policy: goods of a dangerous or explosive nature are not normally covered – nor, of course, is consequential loss arising from non-delivery of goods. And goods that are abnormally fragile or susceptible to damage such as by scratching or jolting should be declared beforehand, as the premium will be specially rated.

85. Where a company operates its own fleet of vehicles, the cover may be restricted to road transport, but for most concerns all forms of land transit are usually covered by the insurance. Insured values should be regularly reviewed – losses both small and large are happening frequently; and consignors could help to arrest the present high rate of theft by selecting their carriers according to previous loss experience, otherwise you may find your insurance premiums are higher than they need be, and you may in addition have to accept a high compulsory 'excess'. It is by no means unusual to find that a firm with a bad experience has to carry the first £1,000 of each and every loss.

86. Firms which operate their own fleet of vehicles are in a position to control the situation more effectively, and where good control is exercised, losses by theft and by accidental damage can be kept to a minimum, and a saving secured on insurance premium outlay.

87. It is a sign of the increasing incidence of largescale thefts during recent years that the insurance market for this class of cover is contracting; some of the insurance companies which previously wrote this business have ceased to do so, or have curtailed the amount of business undertaken.

#### XII MONEY INSURANCE

88. At the outset you should appreciate that the normal burglary policy for business premises excludes cover against loss of cash - unless this is made the subject of a special endorsement. This is mainly because cash is a more attractive proposition for the thief, and also because the risk of loss of actual cash is not geographically restricted to the actual business premises - cash can be lost more easily by assault upon the employees carrying the company's money to or from the bank - or carrying money to distant locations within the works for pay-day distribution or collecting sums such as rents or small book debts paid at the door. The nature of the risk is therefore to some extent removed from the mere security arrangements provided at the insured's premises and the amounts at risk may show very considerable fluctuation from day to day - in consequence of which the insurance of money, sometimes described as cash in transit, has become the subject of a special policy which to that extent replaces the extended burglary policy.

89. Notwithstanding this, the structural nature of the building, and the internal security arrangements in force, will have some bearing on the risk, and

therefore on the premium rating.

90. In drawing up a money policy the accountant is certain to be consulted. Firstly as to the definition of 'Money' for the purpose: you must recognize that in addition to actual specie and notes your policy should normally cover:

- (a) open cheques, travellers' cheques, postal orders and money orders;
- (b) national insurance stamps, whether affixed to the cards or otherwise;
- (c) postage stamps, savings stamps and holidaywith-pay stamps;
- (d) luncheon vouchers, if these are of the variety that could be used by an unauthorized person, or sold.
- 91. With regard to cheques it should not strictly be necessary to insure crossed cheques, if these are automatically stamped 'Account payee only' as soon as received, but, in fact, insurers will usually include them for no additional premium especially where the policy already covers a large sum in real cash.

92. The normal premium basis is by periodical

declaration of the total cash carryings.

93. In defining the actual risk to be covered, you should envisage today's conditions, in which attacks are made upon employees whose movements have usually been observed beforehand. It is important not only to cover the risk relating to the journey to and from the bank - but to include attacks on pay offices, particularly if any of these are situated at distant parts of the works area. The policy should, of course, cover cash not yet paid to employees - and stored overnight in safes inside the pay office. You will find that the standard policy requires that after business hours the cover is only valid provided the money is properly locked away in a safe or strongroom. A geographical extension can be made if requested, to cover the company's cash whilst at or in transit to or from a director's home, or an employee's home - to suit the requirements of a small business. These remarks so far refer to the theft risks attaching to the money itself - but the policy should also include personal accident cover for employees who may be injured in attempted 'holdups', whether successful or otherwise; this cover should preferably relate to unnamed persons, and the amount in the case of fatal injury should, of course, be substantial.

94. The policy will probably refer to cash '... belonging to the insured or for which he is responsible'. This definition will probably exclude such items as social club funds, saving club funds – where these are run by employees as outside activities, and before

completing the policy you should consider whether you want such items to be covered.

95. The policy can also be extended to cover assault damage to safes and strong-rooms, whether the attempt was successful or not.

96. There is normally a limited amount of cover provided against the risk of dishonesty on the part of employees: this cover relates only to losses discovered within a short period (two days to a month) and is thus not so wide as that granted by fidelity guarantee insurance policies, which are the proper means of insuring against defalcations spread over months and even years before they are discovered. Fidelity policies are dealt with elsewhere in this paper.

97. The insurance of money is becoming dearer: it has been relatively cheap up till now, but the rates are stiffening. Perhaps this will have the effect of focusing greater attention upon security aids.

#### XIII FIDELITY INSURANCE

98. Some reference ought to be made to this type of insurance, because it is of particular interest to accountants on account of the importance attached to internal audit and security arrangements.

99. Basically the fidelity policy may be described as a contract between the insurers and the employer, under which the latter is indemnified up to a stated limit, against loss sustained by *him* through the fraud or dishonesty of the employee named in the

policy.

100. It is important to appreciate the contractual relationship between the employer and the insurer, because this means that the employer has certain obligations towards the insurer: the employer must provide a good deal of information regarding the position held by the employee, the basis of remuneration, i.e. whether the bulk of the remuneration is in The form of salary, or whether it is largely a 'commission' job - also certain personal information regarding the employee's family and financial status. The insurance company will also want to know the duties attaching to the job, such matters as whether the employee will have personal charge of large sums of cash - and the degree to which an independent check will be maintained upon the way in which these sums are handled; also, whether the employee himself is required to deposit his own security in connection with his appointment, or whether a third party stands as guarantor for him, and so on. The employer will also probably be asked whether in the first place he obtained satisfactory references regarding the employee on engagement.

ror. On all these matters the doctrine of 'the utmost good faith' will be held to apply, and any deliberate or innocent misstatement or non-disclosure can mean that the contract is voided. The policy is not therefore a substitute for the employer's duty to consider the suitability of the employee he engages and entrusts with the duties in question: but it undoubtedly reinforces the security of the

employer's position, and for that reason is a customary policy to find in connection with certain occupations.

102. As an extension, the policy can be made to cover losses of stock-in-trade through misappropriation – but not shortage of stock from other causes. Here again, the applicant for such cover would have to specify the nature, extent and frequency of periodical stock checks.

103. A modern development in this type of insurance is the collective policy, in which the cover is related not to a named individual but to a scheduled list of employees – usually performing identical or associated duties. The monetary limit of indemnity may be expressed as so much for each person named, or as a total sum for any or all of the names scheduled. An advantage of this latter form of policy is that you can include a number of employees who perhaps only occasionally have temporary charge of money – but who might conceivable abscond with it.

104. A further development is the impersonal policy – covering stated occupations without actually naming the persons concerned; this type of policy obviously imposes a greater risk upon the insurer, and attracts a premium about 50 per cent higher than where the individuals are named and their status scrutinized beforehand; moreover, the insurance company would need to be satisfied regarding the regulations observed by the employer as to references etc., when engaging staff – and default by the employer here could have the effect of nullifying the insurance. This type of policy can be made to cover all employees, if so desired.

105. The contractual relationship between the employer and the insurer also requires that the former must notify the latter immediately any defalcation is discovered or reasonably suspected – and there is no latitude allowed to the employer, who might in non-insured cases be inclined to take a lenient view of an employee's lapse. Furthermore, the policy may permit the insurer to compel the

employer to prosecute the defaulter.

106. Accountants should be-particularly watchful where such policies exist — because the insurance can be nullified if the accounting system or internal check is substantially altered without the approval of the insurer — and it is therefore important to keep the insurance company informed on the subject; this is no more than reasonable, seeing that they are indemnifying the employer against a risk which could be closely influenced by the internal checks maintained.

107. Fidelity guarantee is the rare kind of risk, it seems, where a loss may occur yet remain undiscovered for a long time. For this reason most policies are retroactive to dates that are agreed at the time the policy is first arranged.

108. Some unexpected difficulties of interpretation can otherwise arise regarding the maximum indemnity. Suppose for instance that the maximum indemnity stated in the policy is £10,000 and that the

policy has been renewed over a period of five years; suppose that towards the end of the five years it is discovered that the individual named in the policy has been embezzling funds for, say, four years, and that he has misappropriated £30,000 in this way. Does the policy cover the insured for yearly totals amounting to £30,000 or does it pay only up to £10,000? The indemnity would be the full £30,000 unless the embezzlement exceeded £10,000 in any one year of the insurance, in which case the recovery for that year would be restricted to £10,000.

109. As a further safeguard to the insurance company the policy sometimes limits the indemnity to claims notified within, say, twelve months after the expiry of the period of insurance. The insured party should, of course, be on his guard against this form of restriction, which may seriously reduce the value of the insurance, according to the nature of the risk

to be covered.

#### XIV PERSONAL ACCIDENT INSURANCE

rro. In dealing with personal accident insurance arranged by employers, we are not in any way concerned with insuring to meet a *legal* liability for accidents to employees; the employer's liability insurance policy takes care of your *legal* liability and if you effect personal accident insurances, it will be for other reasons, principally to ensure that a sum of money is available to meet a *moral* liability.

111. The following are a few matters which will probably be considered before a decision to effect

personal accident insurances is taken:

(a) Is the policy intended to indemnify the employer against the financial loss he is assumed to incur if an employee's services are lost temporarily or permanently by reason of some accident? In this event, it is probable that the employer will be liable for tax upon any resultant recovery under the policy being retained in the employer's funds.

(b) Is the policy intended to provide funds to the employer to enable him to compensate an injured employee, or the dependants of an employee killed by some accidental cause during

the course of his employment?

(c) Is the policy intended to give the employee a right to benefit – in which case the insurance may be regarded as part of the conditions of his employment, or is it intended that the employer should have discretion in order that the disposal of the policy moneys should be decided on the merits of each case, and to have regard to any 'legal liability' payments which might be made under the employer's liability policy?

(d) Does the company intend to be selective to the extent of covering only selected categories of

individuals?

(e) Is the insurance cover to be effective all the year round – day and night – at home as well

as at work – or is it only to apply to specified business activities, such as overseas journeys or journeys to the bank? If it is intended to cover business journeys only (on the principle that the employee is exposed to greater risk of accident and is acting on the instructions of his employer in undertaking the journey) then several further important questions arise:

(i) Is the cover to apply to selected journeys

only or to all journeys?

(ii) At what point does the cover begin and end? – The employer must recognize that many business journeys can be said to begin at the employee's home and end on the employee's return to his place of business.

(iii) Is travel by any means of transport to be

covered?

(iv) Is cover limited only to the *journey* out and the *journey* home? Or does it hold good throughout the *duration* of the visit?

In view of these difficulties of definition it may well be more satisfactory to cover senior employees all the year round on a twenty-four-hours-a-day basis regardless of actual travel undertaken — and possibly to include junior employees only for journeys involving air or sea travel (and then for the complete duration of the visit) — as a reasonable compromise.

112. As a generalization you will probably find that some restriction is placed on 'air travel' by the insurer: often non-business journeys in private aircraft are excluded – and journeys in chartered aircraft are often only included at a higher than normal premium rating.

113. A company should also, as a domestic matter, decide whether in any circumstances the insurance shall apply to an executive's wife if she accompanies him on a business journey – the regulations as to declaring such occasions will require to be carefully agreed with the insurer before he will accept the additional risk.

114. The foregoing can be loosely termed 'travel' insurance; yet a company must also consider whether to extend personal accident cover to the following further risks:

- (a) Drivers and passengers (whether employees or otherwise) in private cars owned or operated by the company; 'cars' to include such vehicles as ambulances, staff buses, and utility vehicles.
- (b) Drivers and passengers (whether employees or otherwise) in commercial vehicles owned or operated by the company.
- (c) Assault risks to employees carrying or guarding the company's cash this is separately dealt with elsewhere in this paper.

115. If one assumes that these various insurances are desired to allow the employer the maximum discretion as to what he does with the money arising from a claim, it is of prime importance to avoid

giving the employee a legal right and expectation of benefit under the scheme.

116. Finally, we come to the question of the amount of the cover. For this purpose, it should be assumed that no payment will be made under the employer's liability policy, but that death payments will be made under the company's pension and life assurance scheme. There is no single answer to this problem if for no other reason than that no two companies are alike in the extent to which they assume a moral responsibility for accidents; but as a rough guide, cover of from three to five times salary is met with quite frequently these days, and for some categories of employee, level benefits are common, e.g. £5,000 in the event of the death of an employee, with smaller sums for disablement.

#### XV FORGED TRANSFER INSURANCE

117. A company may incur heavy liability through registration of a transfer which subsequently proves to have been forged - and in consequence the insurance market is prepared to quote for policies of indemnification. It should be noted that indemnification will relate not only to the value of the shares in question, but also to payment of any dividends of which the true shareholder has been deprived by

reason of the forged document.

118. Before discussing the insurance aspect we should set out the legal aspect relating to the shares in question. The original owner of the shares, i.e. the 'transferor' named in the forged document, can compel the company to reinstate him in the register as the true owner. The company for their part have a right of indemnity against the party who presented the forged transfer for registration, as it has been held that the person tendering documents to a company in this manner gives an implied guarantee that they are genuine. But there may well be a further party involved, viz. an innocent transferee who has given value for the shares, on the strength of what proves to be a forged transfer: under the Forged Transfers Acts a company is empowered to pay compensation in such cases - and the purpose of the normal forged transfer insurance policy is to indemnify the company for such payments.

119. Whilst some companies have insured this risk for many years there are a large number of companies that have only recently adopted this form of cover to enable them to dispense with the use of transferors' notices: this dispensation is allowed under the Stock Exchange regulations announced in December 1957.

- 120. Companies are urged when considering this form of insurance to consult their brokers beforehand because the terms and conditions of various policies differ quite widely, on the following points in particular:
  - (a) Extent of cover. It is usually desirable to cover more than just forged transfers - the policy can be made to cover liability arising from forged powers of attorney, forged dividend

warrants, forged notices of change of address, forged probate documents - and indeed forged documents of all kinds likely to be handled in the share registrar's office. It is even possible to cover loss arising from forged documents of all kinds, such as forged documents of title to property - but this would be by means of a

separate policy altogether.

- (b) Precautions to be taken by insured. As in other policies of indemnification, the insurer may lay down conditions with regard to the precautions the insured must agree to take, to minimize the risk of a claim arising. Some policies merely require him to take 'the usual precautions', whilst others specify, for example, that every transferor's signature must be checked against a specimen obtained when the shares were originally issued to him. This is an onerous procedure for a large registration department to have to carry out, and an increasing number of companies resist the imposition of this condition.
- 121. It is important to appreciate that the law gives the company the right to be indemnified by the person who lodges a transfer that subsequently proves to have been forged. The great majority of such 'persons' are stockbrokers or banks, from whom the company may feel there is a good likelihood of recovery. There is a wide variance in premium rates charged; the rating will take into account the average value of the transfers over a period, the amount of indemnity required, and will also depend upon whether the company has adopted the provisions of the Forged Transfers Acts, under which it offers compensation to the shareholder in such cases.

122. Even if there is delay in making discovery beyond the period covered by the Limitation Act of 1939, such lapse of time does not effectively bar an action for reinstatement on the register; it has been held that time does not begin to run in such cases until a complete cause for action exists - and that cause only arises on the company's refusal to register

the shares in the plaintiff's name.

123. Finally it should be noted that a company's right of indemnity against a party presenting forged documents can be vitiated by negligence on the company's part, if proved. Whilst this makes it important for registration departments to adopt efficient methods of internal check, it also stresses the desirability of carefully considering this form of insurance.

#### XVI LONG-TERM AGREEMENTS

124. The accountant will naturally want to avail himself of the discounts which an insurance company may be prepared to offer, and which can sometimes be negotiated by the brokers. In particular, a number of insurance companies offer a discount, normally of 5 per cent, to a client who will undertake to place the insurance with them for a specified period of years -

usually three years, but occasionally, and for a higher discount, five years.

125. The premium rates are normally regarded as fixed for the period of the long-term agreement, unless there is a significant alteration in the risk. Alterations and additions to the policy can be made in exactly the same way as under ordinary annual contracts – and the premium is likewise paid annually in advance and does not have to be paid for the full term of, say, three years.

126. It is not every type of policy to which this arrangement applies: broadly speaking, the only tariff policies on which the long-term discount is at present offered are fire, consequential loss and engineering polices - but there seems no reason why the facility should not, in due course, be extended. From the viewpoint of the insured as well as of the insurer, there is the benefit that the insurance arrangements can be considered to be completed for the three-year period - and it will not be necessary for the insured to consider competitive quotations for renewal from alternative insurance companies at the end of the first and second years. Also there is the important goodwill factor which is bound to arise from time to time in any form of insurance - the insurer will be better disposed towards his client when he is assured of several years' 'run' of the insurance - and he

can afford to concede points that perhaps could not otherwise be allowed.

127. In general, the long-term agreement helps to achieve greater stability than where the contract is placed elsewhere at frequent intervals – and it enables a greater element of goodwill between the parties to be developed.

#### XVII CONCLUSION

128. In conclusion, I would point out that inevitably this paper has had to omit reference to several important branches of insurance; nevertheless, the subjects I have discussed represent a fairly comprehensive range, and moreover are topics on which the accountant should be ready to contribute his opinions. As members of our own Institute we recognize that the Chartered Insurance Institute demands high standards of knowledge, and conducts its own examinations before granting full membership. As accountants we do not claim expert knowledge of insurance – but this paper has endeavoured to show that nevertheless the accountant is concerned at almost every stage with his company's or his clients' insurance needs. It will often fall to him to consult expert opinion, and for this he will need to have a good working knowledge of the subject. (Concluded.)

# Weekly Notes

#### STOCKBROKERS' VIEWS ON SHORT-TERM GAINS

LEADING firm of stockbrokers has circu-Alated, in its Investment Letter, a four-page 'Practical Outline of the Short-term Gains Tax', in which it deals with purely commonplace stock exchange transactions, disregarding the complications which arise from bear transactions, options and contangos. It comments on the fear voiced in some quarters that if a taxpayer's next return contains details of a large number of short-term transactions, he will lay himself open to assessment not under Case VII but under Case I of Schedule D as a professional speculator, and thus be made to pay tax on profits accruing from the sale of shares he has held longer than the statutory six months. If this fear is well-grounded, the safe course for many to pursue would be to eschew short-term transactions altogether. The Letter does not entirely rule out the possibility of the Revenue taking such far-reaching action, but it makes three comments. The Revenue practice so far has been to avoid treating individual casual speculators as carrying on a trade. Secondly, its hands will be full with Case VII, without making this new

departure. Thirdly, a scrutiny of dividend vouchers in the past would have given at least a hint of the more active accounts, yet this has not been followed up.

The 'Outline' sets out ten 'basic rules', of which the sixth is perhaps the most interesting, since it deals with the matching up of sales with purchases where the taxpayer has several dealings with shares of one class. He does not have any freedom to allocate specific purchases to specific sales, but must abide by the rules laid down. According to the 'Outline', the broad principle is to apply the 'first-in, first-out' rule, subject to four main exceptions:

- (a) Where the holding comprises two purchases on the same day at different prices, a subsequent partial sale is regarded as coming equally from each purchase.
- (b) A sale is matched with shares bought for the same account, rather than with a purchase for an earlier account. In the case of cash transactions they are matched only if they occur on the same day.
- (c) A sale is regarded as coming from shares purchased within the tax period rather than shares purchased before April 10th, 1962, or more than six months ago.
- (d) A sale is only matched with inherited shares if there are no other similar shares available.

The 'Outline' sets out some practical examples of this matching.

#### EIGHTH INTERNATIONAL CONGRESS

#### Departure of First United Kingdom Party

THE Eighth International Congress opens in New York tomorrow week, September 23rd, and the latest registration figures indicate that there will be a total attendance of some 3,800 accountants and their ladies from nearly fifty countries.

The first party of accountants from the United Kingdom left Gatwick Airport on Wednesday of last week. All members of The Association of Certified and Corporate Accountants, they travelled with their wives on a charter flight and will have an opportunity of sightseeing in the United States before the Congress starts. Our photograph shows some of the members of the party at Gatwick. They were seen off by the President of the Association, Mr E. Spencer, F.A.C.C.A., the Vice-President, Mr V. R. Chennell, F.A.C.C.A., and the Secretary, Mr F. C. Osbourn, M.B.E., B.A., LL.B., pictured at the front of the group.

Details of the Congress programme were given in our issue of July 21st, and we now understand that the opening speaker when the business sessions begin on Monday week will be Mr Joseph Campbell, C.P.A., Comptroller-General of the United States. He will be followed (as already announced) by Sir Harold Howitt, President of the Sixth Congress in London in 1952, and Mr J. Kraayenhof, who presided over the Seventh Congress in Amsterdam in 1957.

# AMERICAN INSTITUTE'S SEVENTY-FIFTH ANNIVERSARY

On September 22nd, the day before the International Congress opens in New York, the American Institute of Certified Public Accountants will hold its seventy-fifth annual meeting at the Waldorf-Astoria Hotel. In the evening a large number of members will be attending the seventy-fifth anniversary banquet, at which this year's President, Mr John W. Queenan, c.p.a., will take the chair. The principal speaker will be Mr Maurice H. Stans, c.p.a., former Budget Director under President Eisenhower, whose subject will be 'Accounting and human progress'.

On other pages of this issue we have pleasure in publishing an article by Dr Mary E. Murphy, PH.D. (LOND.), C.P.A., giving a short history of the American profession's early days. Originating as the American Association of Public Accountants, formed by a small number of practitioners - mainly Scottish and English Chartered Accountants - in 1887, the Institute has grown to a present membership of 44,000. Its administration, under the direction of Mr John L. Carey, is conducted by a staff of some 170, divided into seven divisions - Accounting and Office Services, Accounting Research, Education, Professional Development, Professional Relations, Publications and Technical Services - each division being supervised by a director with his own assistants. We extend congratulations to the American Institute



on its remarkable growth and achievement during the past three-quarters of a century and our good wishes for its continued progress.

#### OMBUDSMAN IN NEW ZEALAND

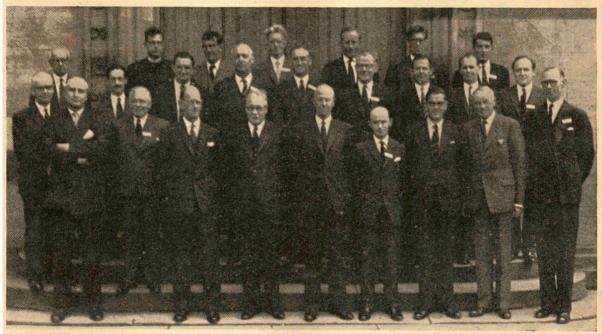
NEW ZEALAND has become the first country within the Commonwealth to appoint an Ombudsman. The choice has fallen on Sir Guy Powles and his appointment has been made unanimously by the New Zealand Parliament.

Sir Guy Powles was High Commissioner for Western Samoa from 1949 to 1960 when he was appointed High Commissioner for New Zealand in India. He originally practised as a solicitor and barrister in Wellington before the Second World War when he was a staff officer and later on active service with one of the New Zealand divisions.

The idea of an Ombudsman has found limited support in this country where it is widely felt that the processes of Government are sufficiently overt, thanks to the scrutiny of Parliament, not to make such an appointment necessary. A book by Mr T. E. Utley called *Occasion for Ombudsman* was reviewed in *The Accountant* on March 18th, 1961, page 322. This book is not in favour of such an office being exercised by one individual supported by a staff but rather by an anonymous central department presided over by a body of public figures.

It is of interest that the first appointment of this kind within the Commonwealth has occurred in a country which has had a mildly Socialist form of Government for many years and where a good deal of

#### Scottish Institute's Summer School



A report of the tenth Summer School at St Andrews of The Institute of Chartered Accountants of Scotland was published in our last issue, and we now reproduce a photograph of some of the personalities who were at the School.

Front row (left to right): Mr E. H. V. McDougall, Secretary of the Institute; Professor Robert Browning, C.B.E., M.A., Ll.B., C.A., Member of Summer School Committee; Messrs R. P. F. Olden, F.C.A., Vice-President of The Institute of Chartered Accountants in Ireland; James C. Stewart, C.A., President of the Institute; W. L. Milligan, B.A., J.P., C.A., Vice-President of the Institute; A. W. Graham, B.COM., F.R.A.N.Z., Secretary of the New Zealand Society of Accountants; W. Stuart Orr, B.A., Ll.B., A.C.A., Secretary of The Institute of Chartered Accountants in Ireland; Thomas Lister, M.A., C.A., a Past President of the Institute; G. D. H. Dewar, C.A., Convener of the Summer School Committee.

Middle row: Messrs A. McKellar, c.a., a Past President of the Institute; A. E. McCallum, B.L., c.a., an Assistant Secretary of the Institute; A. L. Stewart, c.a., M.I.O.M., Speaker; J. A. Crawford, B.A., c.a., A.C.W.A., Member of Council; H. Forbes Murphy, c.a., Member of Summer School Committee; W. K. M. Slimmings, c.B.E., c.a., Member of Council; H. McMichael, c.a., Member of Summer School Committee; W. L. Spalding, B.Sc., c.A., F.C.I.S., Speaker; Thomas P. J. Nicolson, c.a., Member of Summer School Committee.

Back row: Mr James Duncan, c.A., Member of Summer School Committee; Rev. J. C. Stewart, M.A.; R. M. Morison, M.A., c.A., Speaker; John A. Stewart, c.A., Member of Summer School Committee; T. N. Ritchie, t.d., c.A., Member of Summer School Committee; J. C. Shaw, B.L., c.A., A.C.W.A., Speaker; Kenneth J. Port, A.R.A.N.Z., Thirteenth Travelling Scholar of The Incorporated Institute of Accountants in New Zealand.

the initiative for new development and a wide field of public activity is in the hands of the Government. To some extent it may be that in this case the appointment of an Ombudsman will become an alternative to a periodic change of Government.

#### TAX RESERVE CERTIFICATES

THE latest quarterly bulletin of the Bank of England (September 1962) has been issued this week. As well as the usual running commentary on City affairs this issue has a special article on Tax Reserve Certificates, explaining what they are, how they have developed and their importance in Government finance.

Having started as a wartime expedient, Tax Reserve Certificates were continued as a device to minimize the effect of Government expenditure on the supply of money. Their big advantage nowadays is that they help to reduce seasonal fluctuations in revenue. Their effect in moderating seasonal fluctuations in the banking figures of liquidity ratios is, however, thought to be modest. Their probable effect is to increase the total of direct holdings of Government debt.

Who hold these certificates? In 1961 there were some 30,000 to 40,000 holders. About 15 per cent of the total value held was by private persons and this proportion has tended to grow slowly. Most other holdings have been by companies and these have not grown, partly because of little increase in the total of tax paid by companies. Company holdings are also affected by changes in interest rates. Broadly speaking, the cost of raising revenue in this way is considered to be modest and consequently economical.

# This is My Life ...

#### by An Industrious Accountant

#### CHAPTER 137

LEMERGED into the lunchtime sun-glare with a feeling of exaltation, like one of Chesterton's freed slaves – 'white for bliss and blind for sun and stunned for liberty'. I had just had the heady stimulus of witnessing our new auditor overwhelm the board.

He was presenting his firm's annual post-audit report and commentary to the directors – a function in previous years reminiscent of a post-mortem. The new auditor changed all that at one fell swoop. He has a broad humorous face, with keen grey eyes and a reputation for saying the unexpected. He glanced at his voluminous report, a week-old copy of which lay open before each resignedly-waiting director, and spoke up cheerfully.

'You needn't bother much with that report, you know, gentlemen. Your highly efficient secretary tells me you've had all these analyses from him already, so with the exception of the taxation section, which I propose to treat separately, I suggest we look at something more important.' The surrounding ears cocked almost audibly into attention.

'Let's look ahead for a moment. Firstly, sales are up but the gross profit percentage is down for the first seven months of this current year; I'd like to review your long-term forecast. Next, I'd suggest that you consider borrowing money more cheaply. Finally, your shares are quoted at a rather low figure; in view of which, do you feel that we should envisage take-over possibilities and plan accordingly?'

The impact of the new approach was terrific. A verbal free-for-all developed, ideas being aired which I'd never heard before; directors came out with

suggestions which surprised even themselves. Fingers were wagged and interruptions were cross-interrupted; inspirations sprang up full-grown. Best of all, I liked our auditor urbanely sitting back, explaining amid a barrage of questions how he had recently dealt with an outfitting client (anonymous) with similar low-margin trouble.

'We did a series of calibrated tests; arranged nearly fifty sample shopping visits daily to the store, to a preplanned time-table and route, during a period of two months. We noted numbers of customers, numbers of staff serving, follow-up sales talk, and waiting time . . . later we graphed them against sales and profits.'

The horrified chairman said something about 'damned expensive' and the auditor explained it cost the client nothing. 'Every one of our staff going on outside audits passed through the store at least twice daily, and usually bought something. We have the men; we used them appropriately.'

Our managing director, open-mouthed for once, queried unnecessarily costly purchasing: 'Not at all, I assure you,' came the reply, 'our people planned their needs in advance. Young Hobbs, for example, bought his dozen new handkerchiefs one at a time.'

He produced a series of graphs and the directorial heads clustered clamorously over them like children at the TV set. 'Here's where high waiting time indicates understaffing...,' explained the auditor, 'here sales divided by average customers highlighted the lowest return in the store.... My wife with three friends covered the ladies' section, though one day she ran amok and bought seven hats. Naturally, I billed them to the client as overheads.'

While the chairman enthusiastically suggested we continue the discussion over lunch, the managing director was whispering to me: 'Brilliantly inspiring ... provocative new approach ... genius with figures.' What could I do but smirk and reply 'A typical modern accountant'?

# Finance and Commerce

#### John Brown

OHN BROWN & Co Ltd - builders of the 'Queens' - provides this week's reprint. It is, of course, far more than a shipbuilding company. The report, this year in a new and improved form, lists the principal subsidiaries, their products and managements: Wickman (machine tools); Firth Brown Tools (drills, taps, milling cutters); John Brown Land Boilers; Markham & Co (colliery equipment); Cravens (railway rolling stock, fibre glass products); Constructors John Brown (chemical plants, oil installations); and aviation interests which include the Westland Hovercraft.

From the accountancy angle, the important thing about this year's John Brown accounts is the new basis for the holding company's balance sheet. What has been done is best summed up in the words of the

chairman, Lord Aberconway.

'For many years past', he says, 'it has been the policy of the board to leave in the books of subsidiaries a substantial amount of their profits, and only to withdraw from them by way of dividend rather more than enough to cover the dividends on John Brown's capital.

'This has meant, as I have previously pointed out, that the net worth of each subsidiary increases yearly by the amount of its retained profit, and over the years, as a comparison of the consolidated balance sheets shows, this growth has been considerable.'

#### Explanation

'Meanwhile', Lord Aberconway points out, 'the value at which its interest in subsidiaries is shown in John Brown's own balance sheet has not reflected those changes, but has in general altered only as and when a subsidiary has been bought or sold, or when John Brown has subscribed further capital to a subsidiary.'

'On this basis', he continues, 'the value in John Brown's balance sheet of its interest in subsidiaries has become increasingly unrealistic, indeed largely meaningless. Accordingly, your directors have decided that this year and in the future, it would be more helpful to stockholders to show in John Brown's balance sheet its interest in subsidiaries at the sum of the values of the net tangible assets of the subsidiaries, as shown by the balance sheets of the subsidiaries.'

Lord Aberconway, however, emphasizes 'that in making this change this year, your directors are in no way revaluing the assets of the group; no change at all is made in the basis of valuing assets in the books of

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COMPANY	MARCH
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ROWN	BALANCE
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. <b>3</b> 1961		24,335	,446,517	73	00 1.994,820	17,465,672	\$58	55	o lotonic	£20,545,690
7	35,334		15,446,517	906,473	40,500	····· =	1,251,443 360,610 750.000	467,9		
ч		15,640	22.064.614		1,931,673	24,012,927		4 079 54K		628,042,473
w	20,834 4,194		275,000	28 28 28 28	30,000		1,007,137 254,488 1,935,325	332,596		
FIXED ASSETS: Freehold and Leavehold land and Buildings	Deduct: Depreciation	INVESTMENTS AND LOANS: Subsidiary Companies: (Note 3a)	Loans	Trade Investments: (Note 3b) Unquoted Shares Quoted Shares (Market Value 25.312.500: lest went 64.448.120)	Loans	CURRENT ASSETS: Amounts owing by Subsidiary Companies.	including dividends receivable Bebrors, including rax recoverable. Tax Reserve Certificates	Short term Loans Cash at Banks and in hand	ABERCONWAY, Chairman CLITHEROE, Deputy Chairman.	ERIC MENSIOK I H, Deputy Chaltman
₹ 1961	Authorised issued	10,493,267 10,493,267 2,089,818	115,000,000 12,910,182	730,00 <i>l</i> 1,838,735	2,568,736	2,413,089 4,123,089	19,602,007	63,7/3 429,809 449,899	943,683	£20,545,690

160,072

44.9. Cumulative Preference Stock in units of £1 each Cordinary Stock in units of £1 each Cordinary Shares of £1 each

CAPITAL, RESERVES AND UNDISTRI-BUTED PROFITS:

the subsidiaries. All that is being done is to adopt in the parent company's balance sheet the asset values shown by the accounts of the subsidiary companies.'

Those versed in accounting process will grasp the point at once, probably in fewer words. The statement, however, is addressed in the first place to shareholders and there is an interest in seeing how a change in accounting is expressed in the language of everyman.

#### **Contract Claims**

Lord Aberconway has deemed it necessary this year to emphasize the difficulties of Constructors John Brown in Persia by opening his statement on this point. Brief mention was made last year of the anxiety about the eventual financial outcome of certain Persian contracts with an assurance that 'provision had been made on what should be a sufficient scale'.

But he now reports that extras on contracts in respect of such items as changes in specification,

extra work required, delays outside the control of C.J.B., and so on, have now increased to substantially over £1 million. Despite repeated submissions and the exercise of much patience and co-operation, C.J.B. has not yet been successful in obtaining settlement of these extras. In the case of the largest contracts where the client is the Persian Government, C.J.B. has had to request the Government to submit to arbitration. The contract contained an arbitration clause in the usual form.

The Persian Government (now former) declined arbitration; it was illegal for a Government department to have signed such a contract containing an arbitration clause. But in this case, a decree permitting arbitration was being drafted although, says Lord Aberconway, it is still not clear whether it will be in accordance with the usual contract. And the recent change in the Persian Government, he adds, makes the situation no clearer. Following last year's practice C.J.B. is not taking credit for outstanding extras

until they are settled and 'by reason of this policy the accounts of C.J.B. show a substantial trading loss this year'.

JOHN BROWN AND COMPANY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED
31st MARCH, 1962

	_	1961
	££	£ £
BALANCE FROM TRADING ACCOUNT.		·
after deducting depreciation of £1,113,493 (last		1
year £999,579)	4,135,522	4,207,519
Income from Trade Investments:	1,100,024	1 ,,,,,
O 1	184,017	190,140
3	96.613	93,674
Unquoted	280,630	283,814
	260,630	203,017
PROFIT BEFORE TAXATION	4 414 150	4,491,333
PROPRI BEFORE TAXALLON	4,416,152	4,471,333
		1 1
<b></b> .		1
Taxation on current profit:		I I
United Kingdom Profits Tax	572,796	475,714
United Kingdom Income Tax (Note 10)	1,583,536	1,572,295
Overseas Taxes	234,768	265,599
	2,391,100	2,313,608
		1
PROFIT AFTER TAXATION	. 2,025,052	2,177,725
Deduct: Profit of subsidiaries attributable to	2,020,002	] -,,
other shareholders therein	119,018	121,907
other subreholders therein	119,010	127,507
PROFIT ATTRIBUTABLE TO JOHN		1
BROWN AND COMPANY LIMITED	1 004 024	1 2055 010 1
BROWN AND COMPANY LIMITED	1,906,034	2,055,818
Add: £		
Balance brought for-		2,055,818
ward at 31st March, 1961:		1 1
John Brown and Com-		1
pany Limited	2,413,089	2,241,884
Subsidiary Companies 3,521,912	-,,	1 ' ' ]
Less: Subsidiary sold		i
during the year 95,495		1
Exchange differences 133,844		
229,339	_	1
227,337		2,810,716
WWW.	3,292,573	5,052,600
	5,705,662	3,032,000
Dad	<del></del>	7 /00 //0
Deduct:	7,611,696	7,108,418
Provision by a subsidiary company for excep-		1
tional expenditure to be incurred on reorgan-		1 50 500
_ isation of works		50,000
Transfers to revenue reserves by subsidiary		I 2/2 2/2
companies	502,362	349,817
	502,362	399,817
		11
*	7,109,334	6,708,601
Deduct:	2,107,337	
Dividends paid and recommended:		<u> </u>
Preference Stock	66,616	66,616
		706,984
Ordinary Stock	819,458	773,600
	886,074	//3,000
BALANCE CARRIED COMMART		
BALANCE CARRIED FORWARD AT 31st	MARCH, 1962:	2,413,089
John Brown and Company Limited	2,601,948	
Subsidiary Companies	3,621,312	3,521,912
	£6,223,260	£5,935,001
	ENTERN	

#### Cost Stability

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A few words on the concrete benefits to overseas trade which have stemmed from the late Chancellor's policy are worth noting. Lord Aberconway refers to 'A welcome slackening in the speed with which costs of all sorts have risen in recent years' and states that 'this relative stability of costs, compared with the experience of some overseas competitors, has enabled subsidiaries to obtain more export orders and to secure a firmer hold on their export markets'.

One is, almost subconsciously, inclined to feel there are occasions when politics may colour chairmen's statements, but from the other side of the competitive fence there have been signs of sharp cost increases, particularly in the West German steel and engineering industries.

Lord Aberconway hopes that 'good sense and restraint on all sides will preserve these hard-won benefits, and that they will not be dissipated by a resumption of rapid inflation to the detriment, among other things, of exports and ememployment'. He mentions the recently negotiated 'moderate wage increase' as a possible pointer to 'the start of a trend towards the stability that is so much needed'.

# JOHN BROWN AND COMPANY LIMITED AND SUBSIDIARY COMPANIES CONSOLIDATED BALANCE SHEET, 31st MARCH, 1962

•	<u>,                                    </u>				
	Į.	3 1961	7	1961 £	
CAPITAL, RESERVES AND UNDISTRI- BUTED PROFITS:			FIXED ASSETS: (Note 4)		
Capital of John Brown and Company Limited	15,533,498	12,910,182	ld Lands, Buildings,		
Capital Reserves: (Note 1)	1	730.001	Plant and Machinery 19,010,017 Deduct: Denociation 7 868 319	18,077,995	
	1 953 206	3 692 600	: . :	70 874 096	
irves (Note 2)	4.680.678	4,196,566 4,422,601	Goodwill, Patents and Licences 2,646,027	2,223,109	
: :		5,935,001	LOP LOVE C	100 100 11	
	10,503,538	10,131,567	13,181,121	13,097,205	
INTEREST OF THE STOCKHOLDERS OF			INVESTMENTS AND LOANS: (Noce 3b)		
JOHN BROWN AND COMPANY LIMITED	28,390,642	27,464,350	Trade Investments: Unquoted shares 1,274,584	1,126,134	
INTEREST OF OTHER SHAREHOLDERS IN SUBSIDIARY COMPANIES			],( 33,324,260; last year £4,459,1;	1,056,109	
	1.294.628	1.295.150	Loans 60,000	40,500	
ion of Reserves	324,902	347,258	7,301,303	4,777,143	
	1,619,530	1,642,408	CURRENT ASSETS		
CINGDOM TAXATION:			Stocks and Work in Progress 24,280,351	28,756,057	
:	1,484,032	1,719,993	Progress 11,962,390	15,732,797	
laxation Equalisation Account (Note 10) 649	2,133,035	2,384,960	•		
			_	13,023,260	
LONG TERM LIABILITIES OF SUBSID-			: : :	8,694,477	
JARY COMPANIES	•		ficates	2,083,200	
(Secured)	63,876	92.700	Short term Loans 3, [6],829 Cash at Banks and in hand 47,350,927	3,450,239	
CURRENT LIABILITIES:			: <u>4</u>		
ints on contracts in excess of expendi-	770071	200 720 0	secured) 1,562,079		
Creditors and Accrued Expenses 7.184	7,184,520	8.231.507	1,788,848	1,560,362	
	948,060	564,616		28,811,538	
her Shareholders in Subsidiary	900				
Property Divident (res) of John Brown and	38,608	61,/14	ABERCONWAY, Chairman		
Į	562,373	449,899	CLITHEROE, Deputy Chairman. ERIC MENSFORTH, Deputy Chairman.		
	£44,151,491	644,131,486	164,151,491	£44,131,486	
			7		

# JOHN BROWN AND COMPANY LIMITED AND SUBSIDIARY COMPANIES NOTES ON THE ACCOUNTS-31st MARCH, 1962

5. There are the following contingent liabilities:-  The The Com- Company pany and its sub-	t t  Indemnities and guarantees 560,466 971,156  Partly paid shares 45,000 89,730	Total at 31st March, 1962	<ol> <li>The approximate commitments in respect of capital expenditure of the Company and its subsidiaries are £806,000 (1961—£1,070,000).</li> </ol>	7. The remuneration of the Directors of the Company for the year amounted to £43.215, made up of £5,000 for fees and £38.215 for management services and pension premiums. In addition, £800 has been charged in respect of former executive Directors.	8. Assets and liabilities of overseas subsidiary companies have been converted into sterling at the official rates of exchange at 31st March, 1962, except in the case of a Brazilian subsidiary where, because of unstable currency conditions, certain assets have been converted at their sterling cost, and sterling liabilities at the sterling amount thereof.	<ol> <li>The consolidated accounts include those of a home subsidiary company with overseas activities and of certain overseas subsidiary companies, whose financial years ended on 31 at December, 1961, and of two minor overseas subsidiary companies whose financial years ended on 30th June, 1961, and 31st January, 1962, In order to avoid delay in presenting the Company's Accounts it was decided not to after these dates.</li> </ol>
The The Com- Company pany and its sub- sidiaries	730,001 730,001	e,	173,875 173,875 88,851 88,851	2,101,461 3,955,326	1,893,315 1,893,315 48,074 48,074 — 49,598	£160,072 £1,953,206
I. Capital Reserves:-	(a) Share Premium  Balance at 31st March, 1961  Deduct: Amount capitalised and appropriated to Ordinary  Stockholders	(b) General Balance at 31st March, 1961 Add: Net profit on sale of:	S. N. Bridges & Co. Ltd Trade Investments	Deduct:- Amount capitalised and appropriated to Ordinary Stock-	holders Expenses re capitalisation issue and acquisition and sales of Investments Exchange differences less sundry credits	Capital Reserve of subsidiary sold during the year Balance at 31st March, 1962

- The increase in Consolidated Revenue Reserves of £484,112 arises from appropriations by subsidiary companies of profits of £502,362, less £18,250 applicable to a subsidiary company sold during the year. તં
- (a) Shares in subsidiary companies at 31st March, 1962 are valued at the aggregate of the values of the net assets, excluding goodwill, patents and licences, of the subsidiary companies as shown by the books of those companies at their most recent balance sheet dates. For this purpose Future Taxation and Taxation Equalisation in the books of the subsidiary companies have been treated as liabilities. m
  - (b) Trade Investments and Loans are at cost.
- Fixed Assets, before depreciation, are stated at cost, or at net book value at 31st March, 1948, this subsequent additions at cost, except assets sold to subsidiary companies after 31st March, 1948, which are at the written down value or at an independent valuation at the date of sale, with subsequent additions at cost. ť

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- The Taxation Equalisation Account of £649,003 represents tax upon the excess of the book value of plant over the written down value of that plant for taxation purposes. The deduction this year from this account of £15,964 is credited in arriving at the charge for United Kingdom ncome Tax. Ö.
- The 700,000 4% Cumulative Redeemable Preference Shares of £1 each, fully paid, of Wickman Intented, are redeemable at 21s, per share. The latest date for redemption is 30th November, 1998, but the company may redeem the issue in whole or in part on or after 1st December, 1968. The 94,628 7% Cumulative Redeemable Preference Shares of £1 each, fully paid, of Drury Vickman Limited may be redeemed by purchase of such quantity of them in the open market between 1st Octobber and 31st December each year as can be bought by the amount standing to the credit of the Capital Redemption Reserve Fund of the company. =
- The Trading Profit is stated after crediting the release by a subsidiary company of a provision before tax of £108,108 for exceptional expenditure on the re-organisation of Works, which has taken place during the year, and for which an amount of £50,000 was set aside out of taxed profits at 31st March, 1961.

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Relief for Income Tax and Profits Tax amounting to £58,108 has been taken into account by the subsidiary in arriving at its liability for United Kingdom taxation.

#### CITY NOTES

THE Commonwealth Prime Ministers' Conference with the Common Market as the main issue, and the wait for the Chancellor to return from the International Monetary Fund meeting in Washington, have combined to numb the equity sections of the stock-market into inactivity. Prices have drifted lower through lack of support rather than from pressure to sell, and the top has also been taken off the rise in the gilt-edged market.

The 1963 stock-market and industrial boom, so optimistically forecast in some quarters, still seems a matter for investment conjecture rather than eager anticipation. Those forecasting optimistically for 1963 are inclined to think in terms of home domestic demand stimulus rather than fixed investment stimulus which is more likely to be provided through the new Chancellor's presumed plans.

Until present Common Market and economic uncertainties are resolved, the stock-market, as a whole, can hardly be expected to make worth-while headway, although any change for the better in the investment mood could have very marked effect on prices.

#### RATES AND PRICES

Closing prices, Wednesday, September 12th, 1962

Tax Reserve Certificates: (interest rate) 25.8.62 21%

Tax Reserve	Certificates:	(interest rate) 2	5·8·62 2 <del>1</del> %					
Bank Rate								
Oct. 27, 1960	5 <del>1</del> %	Nov. 2, 1961	6%					
Dec. 8, 1960	5%	Mar. 8, 1962	51%					
July 26, 1961	7%	Mar. 22, 1962	5%					
Oct. 5, 1961	$6\frac{1}{2}\%$	April 26, 1962	41/2%					
200, 3, 2,02			72 /G					
T 1 / C	Treasur	·	0.0 10/					
	18s 0.63d%		158 8.84d%					
	175 9.32d%	Aug. 17 £3	158 8·35d%					
	18s 7·14d%		15s 4.50d%					
	17s 8·89d%		15s 0.42d%					
Aug. 3 £3	16s 5.05d%	Sept. 7 £3	14s 4·55d%					
	Money	Rates						
Day to day	27-4%	Bank Bills						
7 days	23-37%	2 months	3 <del>18</del> -4%					
Fine Trade Bill		3 months	3 18-4%					
3 months	5 <del>1</del> -6%	4 months	318-4%					
4 months	51-6%	6 months	3 18 - 4 16 %					
6 months	51-61%		J 16 7 16 70					
Foreign Exchanges								
37 TT 1	-							
New York	2·80 🛂	Frankfurt	11.30					
Montreal	3.01 <del>ĝ</del>	Milan	1738					
Amsterdam	10.00 <del>§</del>	Oslo	20.03 <sup>1</sup>					
Brussels	139.33 <del> </del>	Paris	13.72∰					
Copenhagen	19.397	Zürich	12.09					
	Gilt-e	dged						
Consols 4%	67 🕏	Funding 3% 59	-69 87 <del>1</del> 8					
Consols 2½%	43 8	Savings 3% 60-	-70 85 R					
Conversion 510	% to74 087	Savings 3% 65-	75 778					
Conversion 5%		Savings 2½% 64	-67 90 3					
Conversion 3½		Treas'ry 5½% 2	008-14 04					
Conversion 3½	% 58 <del>1</del> 8	Treasury 5% 8	6-89 88 <del>1</del>					
Exchequer =10	1066 102							
Exchequer 5½% Funding 5½% Funding 4% 6	82-84 07.18	Treasury 31%	77 00 708					
Funding 40/ 6	0-09 9/16	Treasury 31%						
Funding 3½%	99-04 66-	Treasury 2½% Victory 4%	427					
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# Correspondence

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

#### **National Savings Movement**

SIR, — Well over three million employees in industry are members of National Savings Groups producing a gross investment of nearly £120 million per annum.

This is testimony to the facilities which National Savings can offer to small savers and to the long-standing support given to National Savings both by employers and employees.

Many of these groups owe their origin and growth to the initiative of accountants in firms who organized deduction from pay facilities and other savings schemes as a welfare service, knowing that employees free from money difficulties make the best workers.

I have challenged the National Savings Movement this winter to further improve our position in industry by securing an additional 100,000 group members.

This target is realistic, being only some 3 per cent increase, but it is one we can only achieve with the co-operation of all who have a hand in sanctioning or providing savings facilities.

I am sure we can count on your co-operation in

this new drive.

Yours faithfully, MACKINTOSH OF HALIFAX, Chairman,

London SW7. NATIONAL SAVINGS COMMITTEE.

#### Scottish Institute's Apprenticeship Guide

SIR, — Your admirable summary of this Institute's C.A. Apprenticeship Guide (September 1st issue), refers to the Council's recommendations regarding apprentices' remuneration. Your summary omits, however, to mention the important point that these recommendations apply only to apprentices serving in Scotland. The Council makes no recommendations regarding the remuneration of apprentices serving elsewhere in the United Kingdom and is well aware that apprentices serving in London receive remuneration in excess of the scale applicable in Scotland.

Yours faithfully, E. H. V. McDOUGALL, Secretary,

27 Queen Street, THE INSTITUTE OF CHARTERED Edinburgh 2. ACCOUNTANTS OF SCOTLAND.

#### Whole Pound Accounting

SIR, - The recent correspondence on this subject is of special interest to me as I have campaigned over the years for a wider adoption of whole pound accounting techniques.

Mr J. A. Philpott, a 'fellow practitioner', put the

case admirably in his letter (September 1st issue) although I am convinced that it is not necessarily the larger companies with mechanized systems who stand to benefit most.

My experience has shown that there are three key factors in the successful installation of whole pound accounting:

- (1) Eliminate currency fractions at the earliest possible stage in the accounting records. For example, do this when purchase invoices are coded or sales are analysed and summarized.
- (2) Avoid the creation of fractions where none exist to start with. Examples - when processing accruals, pre-payments, and apportionments; when recording inventories and evaluating cost of sales; in asset and depreciation records.
- (3) Ensure that the plan is simple, fully understood and fully implemented by the staff involved. A half-baked, half-understood scheme may well result in unnecessary clerical effort.

If these key factors are borne in mind when planning the installation, the advantages will surely flow, however small the business.

> Yours faithfully, L. A. LYNCH, A.A.C.C.A.,

London W1.

Systems Adviser, Colgate-Palmolive Ltd.

#### **Entertainer: Formation of Company**

SIR, - We would be most interested to have readers' views on the following unusual circumstances:

Client X., an entertainer, whose activities include writing a record column as well as personal appearances, forms a company with his wife as co-director and member. It was our intention to 'tail off' his personal accounts whilst letting the company grow. In this way large penultimate assessments on him would be avoided and large commencing assessments on the company avoided.

The inspector refused to accept two sets of accounts and insisted that all the activities go into the company. We reluctantly agreed, and for two years now P.A.Y.E. has been applied and only the company assessed.

Client Y., another entertainer, is also a composer, and over the past few years his income from personal appearances has diminished whilst his income from writing tunes has grown (much from one source by whom he is commissioned to write songs). He, too, formed a company and, bearing in mind our treatment from the other inspector, we put everything into the company. (Neither X. nor Y. has an agreement with his company.)

The inspector in the latter case refuses to admit the existence of Y.'s company and states that Y. has not discontinued his profession and must still be assessed under Case II. He, therefore, requires Y.'s personal accounts and mentions that Y. has only used a company's bank account for convenience. We have given an undertaking that all the income received during the relevant period has been brought into account but he says that, without a contract between Y. and the company, he is not prepared to accept the position as we put it. We asked for head office opinion and he says that he has now referred to them and they confirm his view. We have said that a contract between Y. and the company that Y. should not do any outside work would never be enforced against Y. (whilst Y. was the 99 per cent shareholder) but the inspector will not move. Incidentally, P.A.Y.E. has been operating in Y. company for eighteen months - in fact, Y. is on all fours with X.

What do readers suggest?

Yours faithfully,

CERTINT.

#### **Deferred Expenditure**

SIR, - One cannot but sympathize with the writer of the letter published under this heading in your issue of September 8th. The company renting expensive equipment over a term of four years, with heavy initial expenses, must seek, like everyone else, to show a true and fair view in its accounts.

While, however, it is true that a case can be fairly made out for spreading the initial expenditure over four years by carrying forward what might be called the 'unexpired portion' of the expenditure over the period, surely this is only part of the problem?

Anyone renting equipment knows that there are various contingencies which may arise, such as:

- (1) the renter may not pay his rental;
- (2) recovery of the goods can prove costly;
- (3) the condition of the recovered goods may necessitate expensive repairs;
- (4) further expenses will arise on resale of partly used goods.

To these we may now add the balance of the 'unexpired portion' of the initial expenses mentioned above.

Surely it would satisfy the 'true and fair' intention of your correspondent if a profit were to be arrived at on the principle of deferment of part of the expenditure as suggested by him, after which a full reserve for all the contingencies enumerated above, and probably others not mentioned, should be made from the net profits.

There is, of course, also the problem of income tax. It is not normally possible to avoid taxation on reserves, and if a company wishes to show a true and fair view as outlined, the payment of taxes on the same basis seems unavoidable. It is, however, submitted that this is not so important as the proper presentation of accounts to shareholders.

Yours faithfully,

London EC2.

R. S. WALDRON.

#### BRITISH COMPUTER SOCIETY

#### Third National Conference at Cardiff

The third national conference of the British Computer Society was held in Cardiff from September 4th—7th and was attended by delegates from throughout the United Kingdom and countries overseas. Thirty-three papers were presented at eleven sessions, their subjects ranging from the mathematical and scientific application of computers to their use in Government and commercial organizations. The conference was welcomed by the Lord Mayor of Cardiff and the opening address was given by the President of the Society, Mr D. W. Hooper, M.A., F.C.A., chief organizing accountant of the National Coal Board.

We summarize below a selection of some of the papers presented at the conference.

#### Profitability of a Computer System

Speaking on the methods of costing used to assess the justification of computer systems in Government offices designed to meet the conditions of public accountability of Government departments, Mr J. D. W. Janes, of the Treasury's Organization and Methods Division, said that the problem was to determine whether alternative methods were worth while and, if so, which should be chosen.

In a typical computer scheme, he said, the main elements of gain and loss occur over a period. In such circumstances, he felt that some compound interest method of costing gave the most reliable results. In practice, however, there were, he said, some difficulties about this and the Government had used a costing system, based on simple interest, designed to calculate an average net annual return on capital. In examples of typical schemes relating to the incidence of gains and losses over the initial planning and the amortization periods, and figures for the return for these schemes calculated both by a compound interest method and by the standard automatic data processing costing system, it was shown that the amount of error that might arise from the simplified system was generally acceptable. He made an interesting analysis of the costings of a number of Government computer schemes which indicated the relative importance of some of the elements of cost, and the extent of saving which was expected to be achieved.

Mr Janes concluded by explaining that, although costings were based on direct savings, the possibility could not be excluded of a computer being justified by indirect advantages. But even in such cases, there was still a need for comprehensive costing.

#### From Cards to Magnetic Tape

Mr A. E. C. Hodgson, of Ferranti Ltd, dealt with the problems experienced during the first six months of conversion of existing card records to magnetic tape in the South African Mutual Assurance Co.

He said that during this period 1,800,000 Powers cards were converted to form a magnetic tape main file of 134 reels of electrodata tape—an operation which took about six hundred hours of computer time. In addition, two updating runs were performed, one in the middle and one at the end of the period. The

updating runs, he explained, consisted of amending the magnetic tape files – generated entirely by cards in existence at the time the machine was handed over – by new policies and changes to existing policies which had occurred since the start of the conversion. This updating work took approximately three hundred hours. The remainder of the available computer time was taken up in program development, of which a great deal was necessary during the early months of operation in a new installation.

In the first half of his address Mr Hodgson dealt with the broad outline of the framework of the four main conversion runs, with particular reference to the dump and restart problems which are peculiar to this type of work. The second was devoted to the difficulties inherent in dealing by computer with large card files which have been in use in a card installation over a period of many years. Such difficulties included: change of punching instructions at some time in the far past causing program failure; sensitivity of computer card-readers to slight off-punches, particularly when gang-punching had been used to produce the card; dealing with out-of-sequence cards, which were always likely to be present in large card files; and cards which had failed to pass computer consistency checks.

Mr Hodgson's address, whilst not concerned with the specific problems of insurance, stressed the general problems that may occur during the conversion of existing card records to magnetic tape.

#### **Recording National Insurance Contributions**

In his paper, Mr J. Drummond, of the Ministry of Pensions and National Insurance, dealt with some of the aspects of recording graduated national insurance contributions.

The initial legislation of the Graduated Pensions Scheme specified certain basic factors to be covered by the establishment of a comprehensive recording system. A quick decision, he said, had to be made as to whether the recording system should be based on clerical methods, punched cards or a computer. A survey of known factors and rough forecasts of possible complications indicated that a large-scale magnetic tape system would provide the best solution, and an Emidec 2400 system was ordered in mid-1959.

The system, he said, has to maintain over twenty-five million individual insurance accounts in such a way that full details of contributions and supporting documents may be produced at any time up to fifty-two years after receipt. In any week, 1,500,000 items may be processed but around 10 per cent of cases may contain wrong identity details and in a further 25,000 to 30,000 cases per week exceptional sets of circumstances may call for special action beyond the discretion of the computer. To meet all these and other requirements Mr Drummond explained that all incoming documents are merely divided to main types of computer input and fed into automatic numbering machines which print sequential numbers on them, after which the documents are micro-filmed.

Minimum essential data are then punched into machine cards which are fed into the computer system, but these data include the document numbers. All sorting and editing of input is carried out by the computer. Conversely, all output from the computer is sorted to the order most convenient to the recipient. For example, all items found to contain errors in identity detail are sorted to the sequence of the 'receipt' numbers on the original documents.

He emphasized that the quantity of information is not of itself the major problem. What, at first glance, is a relatively simple job of posting items into accounts and producing details of accounts on request is, in fact, very complex, involving a series of over fifty major interlocking programs. The active 'current generation' of magnetic tapes, he said, consists of over one hundred and sixty action groups covering more than one thousand five hundred reels. Special control programs have been designed to minimize the risk of human error in filing and loading tapes disrupting or delaying computer processes. The control programs also cater for the operation of the various items of peripheral equipment and the automatic rectification of certain error conditions.

#### **Production Control by Computer**

Mr R. G. Massey, of Richard Thomas & Baldwins Ltd, described the first stage of a long-term programme for the development of computer applications at his company's new works at Llanwern, Newport, Mon. The first stage, due for completion in mid-1963, consists of four systems covering:

- (i) order handling, order progressing and production scheduling;
- (ii) on-line information display and collection in the steelmaking and hot mill departments of the works;
- (iii) automation of the hot strip mill;

(iv) off-line data processing.

Panellit 609 systems based on Elliott 803B computers having extended core storage and using magnetic films are being used for (i) and (ii) and a further 803B was installed in December 1961 for (iv). This, he said, will be fitted with a punched-card reader in addition to the standard paper tape input. The hot strip mill automation system (iii) was being provided by the American General Electric Co and will be based on a G.E.412 process control computer with a 56,000-word magnetic drum.

Discussing how the four systems operate, Mr Massey said that the production scheduling computer accepts customers' orders and prepares schedules to meet them covering the major processes in the works from the production of steel ingots to the dispatch of finished product. In the steel plant and hot mill areas the schedules are transmitted automatically to the information display and collection system which actuates printers and visual displays in the plant to give the operators their detailed instructions. Progress data are fed back into this system from manually operated consoles in the plant and, in some cases, from automatic recorders. Any significant deviations from planned production are relayed back to the production scheduler for automatic re-scheduling. At regular intervals summarized information is printed out for management reporting purposes and punched cards prepared for statistical analysis on the off-line data processing computer.

In addition to the description of the work of each

system and the inter-connecting links, Mr Massey gave a short history of the project including its inauguration, the formation and organization of the systems analysis team, the development of the equipment and programming specifications and the establishment of the operating organization.

#### **Data Transmission**

Reviewing the Bank of Scotland's experience in transmitting accounting data, Mr J. Letham said that where the basic intention is to have a central point for the assembly and processing of data received from outlying stations, methods of transmission of the information may vary for a number of reasons. These include cases where it is economic to install equipment at the perimeter which can convert data at that point to the input medium required for the central unit, as contrasted with cases where other means of transmitting the data for conversion at the centre are preferable.

Originally, he said, the Bank's branch offices included in the book-keeping centre were all locally situated, and transmission consisted of physical delivery in one way or another of documents representing the entries to be recorded. The character of the Bank's branch system demanded a more effective method of long distance data transmission, and following discussions with the telecommunications branch of the Post Office, it was agreed to experiment over the public telex network using 'off-line' five-channel perforated paper tape and producing facsimile 'chadless' tape at the computer centre on a printing reperforator as terminal equipment. Entries were of variable length, between nineteen and twenty-eight characters in each case, and the use of 'chadless' tape allowed interpretation of the data to be printed on the tape, thus facilitating handling by the operating staff.

Prior to the commencement of transmitting operations the Post Office conducted an accuracy test over the intended route by sending some 500,000 characters. During this test not more than four errors occurred. The original full time operating link in this arrangement, Mr Letham said, was between Dunfermline and Edinburgh and most satisfactory results were obtained. The speed under standard telex automatic transmission rates was 400 characters per minute. Soon after this stage had been reached it was found that several electronic companies were conducting experiments into the possibility of high-speed transmission over the public telephone network, and the Bank undertook a field trial of one such type of equipment, by Ericsson Telephones Ltd, with Post Office cooperation. This link was set up between Glasgow and Edinburgh and came into operation in May 1961 and it has been in use since then up to the present date. The speed of operation is twenty-five characters per second and some error correction facilities are incorporated in the equipment.

Dealing with accuracy of transmission, Mr Letham said that operational working and the difficulty of determining in any specific cases whether errors have arisen in the original tape or during transmission had made it impossible to keep an accurate check on error rates. This, he said, was not so important in the case of the Bank of Scotland, as an integral part of the process was a 'validity' check on all data received at the centre before input into the system.

# Notes and Notices

#### PROFESSIONAL NOTICES

Messrs Edwin Bradshaw & Son, Chartered Accountants, of 3 Springfield Street, Warrington, and Messrs Bennett & Bennett, Chartered Accountants, of 13 Bold Street, Warrington, announce that a professional association has been arranged between the two firms. For this purpose, Mr P. Gandy, F.C.A., has joined the firm of Edwin Bradshaw & Son, as a partner. Mr D. J. Watts, A.C.A., who has been with the firm for several years has also been admitted to partnership. Mr F. Neatham, F.C.A., and Mr N. Neatham, F.C.A., have joined the firm of Bennett & Bennett as partners. The practices will continue in their separate names.

Messrs Lindsay, Jamieson & Haldane, Chartered Accountants, of 24 St Andrew Square, Edinburgh 2, announce that they have assumed Mr Patrick I. Woods, A.C.A., as a partner as from September 1st. Mr Woods will practise from their London office at 110 Cannon Street.

Messrs Macnair, Mason, Evans & Co, Chartered Accountants, of Capel House, 62 New Broad Street, London EC2, announce with regret the death on August 31st, 1962, of Mr H. H. Mason, F.C.A., who had been associated with the firm since its foundation over fifty years ago, and who had been senior partner until his retirement in 1958.

Messrs McLintock, Moores & Murray, Chartered Accountants, announce that their address is now 156 St Vincent Street, Glasgow C2. Telephone: Central 1496.

Messrs Norris, Gilbert & Co, Chartered Accountants, announce their removal from 93/97 Regent Street, London W1, to 70 Pall Mall, London SW1. Telephone: Whitehall 1933.

Messrs Pannell, Crewdson & Hardy, Chartered Accountants, announce that in conjunction with Messrs Howell, Wade & Co, they are opening an office in Bathurst, Gambia. Mr Terence A. G. Dendy, A.C.A., will be a partner in both firms.

Messrs Price Waterhouse & Co (European Firms) announce with regret the death of Mr John C. Dickinson, O.B.E., F.C.A., resident partner in Stockholm for many years.

Messrs H. S. Sussman & Co, Chartered Accountants, formerly of 3 Grosvenor Street, London W1, announce that as from September 3rd they have moved their offices to 12 Nottingham Place, London W1.

#### DOUBLE TAXATION: JAPAN

A Double Taxation Convention between the United Kingdom and Japan was signed in Tokyo on September 4th. The Convention, which is subject to ratification, provides for the avoidance of double taxation of income and profits and is expressed to take effect in the United Kingdom for income tax from April 6th in the calendar year in which the exchange of the instruments of ratification takes place. The full text will be published shortly by H.M. Stationery Office.

# OFFICIAL AND GENERAL BUILDING SOCIETY

The Chief Registrar of Friendly Societies has announced that on September 5th, 1962, pursuant to section 6 (1) of the Building Societies Act, 1960, he made an order applying subsection (2) of section 6 of the Act to the Official and General Building Society whose registered chief office is 406 St John Street, London EC1.

Under subsection (1) of section 6 of the Act, the Chief Registrar, if he considers expedient to do so in the interests of persons who have invested or deposited or may invest or deposit money with a building society, may, by an order made with the consent of the Treasury, apply subsection (2) to the building society forbidding a building society from (a) accepting the deposit of or otherwise borrowing any money or (b) accepting any payment representing the whole or any part of the amount due by way of subscription for a share in the building society, other than a payment which fell due before the making of the order.

# THE CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

At a recent meeting of the Executive Committee the chair was taken by Sir William Carrington, F.C.A., President of the Association, and six members were present.

#### Application for Assistance

Seven new applications for assistance were considered. In two cases a grant was made; in four cases a donation was given; in one case no grant was made.

One application was from a member, married with a young son, who is suffering from disseminated sclerosis. He can do some work at home when he can obtain it, but he has insufficient to make him self-supporting and a grant was, therefore, made to him.

Twenty-three applications for further assistance

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were considered. In ten cases the grant was renewed; in six cases the grant was increased; in four cases the grant was reduced and in one case no further grant was made owing to improved circumstances. Two cases were deferred pending further information.

#### Special Fund

One application for further assistance was considered; the grant was renewed and a donation was made.

#### W. B. Peat Memorial Scholarship Fund

Two grants of £30 per annum each for three years were made. One case was renewed for a further three years at £30 per annum.

#### Matters Reported

Eleven cases were reported where changes in circumstances had occurred and grants were adjusted or donations made in appropriate cases. In two cases the Hon. Secretary was pleased to report that no further assistance was required owing to re-marriage.

#### THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Members' Library

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Capital-Expenditure Decisions: how they are made in large corporations; by D. F. Istvan. Ohio. 1961. (Indiana

University, 24s.) Change of Name; by J. F. Josling: seventh edition, 1962.

(Solicitors Law Stationery Society, 7s 6d.)
Charlesworth on Negligence; by J. Charlesworth: fourth edition by R. A. Percy. 1962. (Sweet & Maxwell, 105s.)
Clerical Salaries Analysis. 1962. (Institute of Office Management.) 1962. (I. of O.M., 6os.)

The Clerk in Industry: a survey . . .; by J. R. Dale. Liverpool. 1962. (Liverpool University Press, 25s.)

Conference of Asian and Pacific Accountants: Proceedings: Canberra. March-April 1960. (Australian Society of Accountants.) Hobart. 1961. (A.S. of A., presented.) A Course in Applied Economics; by E. H. P. Brown. (1953).

Credits and Collections: management and theory; by T. N. Beckman: seventh edition. New York. 1962. (McGraw-Hill, 66s.)

Elements of Auditing; by R. G. Williams, F.C.A.: twelfth

edition. 1961. (Donnington Press, 178 6d.)
Final Report of the Committee on Consumer Protection: Cmnd. 1781. (Board of Trade.) 1962. (H.M.S.O., 18s.)

Hart's Introduction to the Law of Local Government and Administration; by Sir W. O. Hart: seventh edition. 1962. (Butterworths, 62s 6d.)

Hire-purchase Law and Practice; by R. M. Goode. 1962. (Butterworths, 77s 6d.)

Hotel and Catering Law; by F. J. Bull and C. Richardson: second edition. 1962. (Barrie & Rockliff, 158.)

Industry Income and Investment: the common sense of economics; by F. W. G. Benemy. 1962. (George G. Harrap, 18s.)

Inflation and Corporate Accounting; by F. J. Walsh. New York, 1962. (National Industrial Conference Board.)

An Introduction to Evidence; by G. D. Nokes: third edition

1962. (Sweet & Maxwell, 57s 6d.)
The Law Relating to Bankruptey, Deeds of Arrangement, Receiverships and Trusteeships; by O. Griffiths: seventh edition. 1961. (Textbooks, 25s.)

Modern Methods of Valuation of land, houses and buildings; by D. M. Lawrence, W. H. Rees and W. Britton: fifth edition. 1962. (Estates Gazette Ltd, 63s.)

Reporting of Leases in Financial Statements: (accounting research study No. 4); by J. H. Myers. New York. 1962.
(American Institute of C.P.A.s, presented.)
Tax Treatment of Research and Development; by J. van

Hoorn. Amsterdam. 1962. (O.E.C.D., 15s.)

Terminology for Accountants. (Canadian Institute of Chartered Accountants.) Toronto. 1962. (C.I. of C.A., presented.)

Traité de Controle des Comptabilités; by G. Salato and A. Ghez: second edition. Paris, 1960. (Société D'

Editions Economiques et Financières, 40s.). Wage Policy and Long-term Contracts; by J. W. Garbarino. Washington. 1962. (Brookings Institute, 14s 6d.)
Work Study Applied to Building; by R. Geary. 1962.

(The Builder, 18s 6d,)

#### LONDON STUDENTS' WEEK-END COURSE AT OXFORD

The Oxford residential course for members of The Chartered Accountant Students' Society of London opens at Balliol and Jesus Colleges next Thursday and will be attended by over one hundred and fifty students.

The course will be addressed by a number of eminent speakers including Mr Edward du Cann, M.P., Economic Secretary to the Treasury, and Mr E. J. P. Lunch, F.C.A., chief accountant, Port of London Authority. Fourteen discussion groups will be working, comprising twelve to thirteen members each. Group discussions will follow each lecture with a final discussion with the lecturer at the end of the day. On Thursday evening, Mr J. A. Jackson, F.C.A., a Vice-President of the Society, will dine in Balliol with students and guests from the College and on the following evening Sir Harold Gillett, Bt, M.C., F.C.A., also a Vice-President of the Society, will dine in Jesus College. The course will disperse on Sunday afternoon.

#### MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS

#### **Discussion Group**

A meeting of the Manchester Society of Chartered Accountants' Discussion Group was held last Tuesday when the subject of discussion was 'Trials and tribulations of a receiver', led by Mr R. Jones, F.C.A., with

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the chairman of the group, Mr R. P. Wilkinson, F.C.A., presiding.

The remainder of the autumn programme is as follows: October 9th: 'The industrious accountant', led by Mr J. C. Robinson, F.C.A.

November 5th: 'The Institute's statements on auditing with regard to stock', led by Mr W. R. Carter, M.A., F.C.A. December 11th: 'The public image of a chartered accountant', led by Mr T. L. Crispin, F.C.A.

The above meetings will take place in the board room, Chartered Accountants' Hall, 46 Fountain Street, Manchester 2.

Inquiries regarding the activities of the group may be obtained from the honorary secretary, Mr M. J. Croll, A.C.A., at the above address.

### MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY

A comprehensive lecture programme has been arranged for the 1962-63 session of the Manchester Chartered Accountants Students' Society. Unless otherwise indicated, meetings will commence at 6 p.m. preceded by light refreshments at 5.30 p.m. at the Chartered Accountants' Hall, 46 Fountain Street, Manchester 2. The programme up to the year-end is as follows:

September 27th: 'Auditing', by Mr V. R. Anderson, A.C.A. (Caer Rhun Hall Ltd, Conway).

October 4th: 'Insolvency', by Mr J. Tye (Official Receiver in Bankruptcy).

October 5th: Afternoon visit to Burroughs Adding Machines Ltd (Applications to join the party should be made to the assistant secretary).

October 11th: 'Machine accounting', by Mr D. H. Hackett, A.C.A. (Accountant liaison officer, The National Cash Register Co Ltd).

October 18th: 'Management consultancy', by Mr F. G. Taylor (Supervising consultant, Associated Industrial Consultants 1 td)

Consultants Ltd).

October 25th: "The workings of the stock exchange", by
Mr C. R. Curtis, M.SC. (ECON.), PH.D., F.C.I.S.

November 1st: 'Machine accounting', by Mr D. H. Hackett, A.C.A. (Accountant liaison officer, The National Cash Register Co Ltd).

November 8th: 'Britain's entry into the Common Market', by Mr A. R. Ilersic, M.SC. (ECON.), B.COM. (Lecturer in Social Studies, Bedford College, University of London).

November 15th: 'Schedule D, Case I', by Mr N. G. Comber (Senior Inspector of Taxes).

December 6th: General debate. (Topic to be announced.)
December 13th: 'Management accounting', by Captain
M. R. Aries, c.A. (Accountant, Flight Operations,
B.O.A.C.).

December 20th: Afternoon visit underground to a Manchester Colliery. Applications to join the party, which is limited to twenty (all males), should be made to the assistant secretary.

#### Tickers Programme 1962-63

The Tickers Club opened its 1962-63 session with a 'River boat shuffle' on August 25th, and on Tuesday next there will be a 'Tickers Stomp' at the Bodega Restaurant. The remainder of the programme will comprise a luncheon on October 12th, a debate on December 6th (both at 46 Fountain Street, Manchester) and a dinner dance on February 1st at the Lancashire County Cricket Club, Old Trafford. Further particulars are available from Mr E. M. Crump, 2 Baldock Road, Didsbury, Manchester 2.

#### **TENNIS**

In a tennis match played on August 20th, three pairs a side, between the Birmingham and District Society of Chartered Accountants and the Birmingham Chartered Accountant Students' Society, the match resulted in a win for the senior society.

#### SEVENTY-FIVE YEARS AGO

From The Accountant of September 17th, 1887

A Weekly Note

A meeting of policy-holders in the Briton Medical and General Life Association was held in Birmingham last week, for the purpose of considering the scheme of reconstruction. The books of account of the association and the manner in which they had been audited were referred to. It was stated that proceedings had been commenced, the exact nature of which it was not advisable to indicate. One of the speakers said he believed half of the auditors "were a myth". The way they audited the accounts, he said, appeared to be that they went down to Richmond to a dinner party and then when the champagne had got into their heads they looked at certain documents. It seems to us that the question sensible and impartial people will ask is why qualified men were not appointed auditors? The people who talk, as the speaker just referred to talked, are just those who never think of raising the question of the appointment of trained auditors, whilst there is time to remedy matters. In fact it is they who are blameable, not the auditors (save as to fraud), whose qualifications for the duties of the office can be so easily ascertained.

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# THE ACCOUNTANT

SEPTEMBER 22ND, 1962

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# Proposals for Tax Reform

AST Monday a report was published of a committee set up by the Liberal party under the chairmanship of Professor ✓G. S. A. WHEATCROFT to examine the British tax system. All but two of the six other members of the committee were accountants, prominent among them being Mr LAWRENCE ROBSON, F.C.A., F.C.W.A., a former chairman of the Party.

The report recommends that the present five-schedule income tax with a 'standard' rate and also the profits tax should be replaced by the following four separate taxes on income: (a) Personal employment tax. (b) Personal business tax. (c) Personal property tax. (d) Company tax.

The committee also propose that there should be a new tax to replace estate duty, a tax 'graduated by reference to the aggregate wealth gratuitously acquired by the recipient'. A married woman would be separately charged to income tax, and the various personal allowances would be given by way of tax credits. The personal business tax would be confined to individuals and would be based on the accounting period, as in the present profits tax.

The committee seem to be much exercised about the possibility of avoidance by manipulation of the basis periods. The personal property tax would cover interest and annual payments, as well as rents. The company tax would be at 45 per cent of profits, which would be defined on a much wider basis than at present.

The report takes a justifiably strong line about the evils of tax evasion and tax avoidance. On the former, it recommends that tax inspectors should be assisted in their unenviable task, and that the wording and layout of Inland Revenue forms be improved. It also calls for the mobilization of all organizations which can influence opinion against 'the present corruption to which overhigh taxes and an unfair system have led us'. We have ourselves pointed out the social evil of an income tax system where the employee is rigidly bound by P.A.Y.E. deductions and an inflexible rule about expenses, whereas the trader can easily conceal receipts and obtain unreasonable expense deductions.

As regards legal avoidance, the committee contemplate that the new structure would greatly narrow the field of operation. In particular, the present system of allowing interest and annual payments as deductions from total income would be severely curtailed. Not all the recommendations are likely to receive general approbation, but there is no doubting the knowledge and sincerity which have gone into the report.

<sup>&</sup>lt;sup>1</sup> Taxation. A Report to the Liberal Party. Liberal Publications Department, 58 Victoria Street, London SW1. 15 6d.

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# Short-term Gains - XI.

#### IDENTIFYING ASSETS SOLD

AST week we began to deal with the rules laid down in paragraph 8 of the Ninth Schedule to the Finance Act, 1962, for identifying shares sold (or otherwise disposed of) with the shares acquired. This is important not only for ascertaining whether or not the disposition falls within Case VII at all, but also, where it does fall within Case VII, for ascertaining the relevant cost of the shares sold, for the purpose of computing the gain or loss. The rules reduce to a minimum the scope for manipulation by the taxpayer.

Paragraph 8 (4) (b) provides that shares disposed of for transfer on a particular date or in a particular period:

'(b) shall be identified with shares acquired for transfer or delivery on or before that date or in or before that period, but on or after the date of the disposal, rather than with shares not so acquired'.

The words 'on or after the date of the disposal' would seem to govern the word 'acquired', not the word 'delivery'. What is in mind here, evidently, is a 'bear' transaction.

Paragraph 8 (5) is comparatively simple: subject to the above rules, preference is to be given to the shares which the taxpayer did not acquire as a legatee. It will be remembered that section 12 (8) exempts a legatee of shares from being charged to tax in respect of the disposal of the shares so acquired, except in the special case of disposals of shares in a company which has had transactions in land (section 14). But for paragraph 8 (5) the legatee could acquire shares of the same class by way of speculation and then purport to sell the inherited shares.

The last of the four rules, contained in paragraph 8 (6), is a set of rules in itself. Subparagraph (6) says:

'(6) The shares disposed of shall be identified:

(a) with shares acquired within the six months preceding the disposal (but not earlier than April 10th, 1962), rather than with shares not so acquired, and with shares so acquired on an earlier date rather than with shares so acquired on a later;

- (b) subject to paragraph (a) above, with shares acquired on a later date rather than with shares acquired on an earlier; and
- (c) with shares acquired at different times on any one day in as nearly as may be equal proportions.'

Thus if the taxpayer sells shares, and he has acquired any shares of that class in the vulnerable period (other than as legatee) the shares sold are identified as far as possible with the shares acquired in the vulnerable period, and on a strict 'first in, first out' basis. In so far as shares disposed of have to be identified with shares acquired outside the vulnerable period, then the 'last in, first out' basis applies. Why should it be necessary to distinguish between shares all of which were acquired outside the vulnerable period? The answer lies in section 14 which provides for Case VII liability on certain disposals of shares (whenever acquired) if they are shares in a land-owning company and the company itself has acquired land within the vulnerable three-year period.

The strict chronological order becomes a little unreal when there have been a number of separate acquisitions on the same day, and therefore it is dropped (paragraph 8 (6) (c)). All the acquisitions will of course either be in the vulnerable period or not, since the law ignores part of a day. Although paragraph 8 (6) (c) does not say so, it can only have practical effect where the acquisitions were at different prices; in other words it affects only the quantum of liability.

#### Example

On June 1st, A. buys:				£
J AJ	•-•	• •		600
500 C.B.'s at £3	• •	••	· •	1,500
800				£2,100
				<del></del>
On September 1st, A. 400 C.B.'s at £2 10s	sells ••			£1,000

These are his only transactions so far.

The 400 sold are deemed as to 150 (three-eighths of 400) to have cost £2 and as to 250 (five-eighths of 400) to have cost £3.

The total cost of the 400 sold is accordingly:

150 at £2 ... .. ... ...  $\frac{300}{250}$  at £3 ... ... ...  $\frac{750}{1,050}$ 

Assuming no expenses, the Case VII loss is £50 (£1,050-£1,000) and A. carries forward the remaining 400 shares, 150 at a cost of £2 and the remaining 250 at a cost of £3 (paragraph 8 (3)). (There seems to be no corresponding rule for separate disposals on the same day).

The general rules of identification contained in paragraph 8(3), (4), (5), (6), (7) were intended to be comprehensive. However, when the Bill was published, someone who was perhaps not unconnected with the Stock Exchange must have pointed out to the Government that these rules standing alone might work unfairly against persons engaged in 'continuation' or 'carry over' transactions. Accordingly, at a very late stage in the Bill, a new paragraph 8 (8) was added at the Government's behest, and it overrides the rules in paragraph 8 (3), (4), (5), (6). To add to the mystification, paragraph 8 (8) scrupulously avoids any mention of any word which brings these contango transactions to mind. Before paragraph 8 (8) can apply, four conditions have to be satisfied:

- (i) the taxpayer acquires shares for delivery in period A;
- (ii) he disposes of them for delivery in period B;
- (iii) the acquisition and disposal form one single bargain; and
- (iv) the bargain is entered into under arrangements designed to postpone the delivery of shares already disposed of.

Where these conditions are satisfied then the shares disposed of at (ii) must be identified with the shares at (i) (paragraph 8 (8) (a)).

Now previous to the bargain at (i) and (ii) the taxpayer may have disposed of shares which, under the rule in paragraph 8 (4) (b) would be identified with the acquisition at (i) above, but cannot be so identified, by reason of paragraph 8 (8) (a). Therefore, these shares are to be identified with any other available shares of the same class acquired for delivery in period A; earlier disposals being identified before later ones (paragraph 8 (8) (b) (i)). If they cannot be identified in this way, the disposed of shares are to be treated as though they were disposed of for

transfer in period B (paragraph 8 (8) (b) (ii)).

The object of paragraph 8 (8) is to protect a seller (who is not carrying out a 'bear' transaction) from being taxed on the profit which would arise if he 'contangoed' on a falling market.

Suppose a taxpayer has acquired a large holding of shares as a long-term investment, regardless of day-to-day fluctuations. However, immediately after the acquisition the price drops heavily. Notwithstanding that he is a long-term holder, the taxpayer would be very tempted to sell his shares and promptly buy them back again, thus creating a Case VII loss which is available for set off against any eventual Case VII gains. To counter this, paragraph 9 (1) prohibits the allowance of the loss, except against the gain accruing from a second disposal of the re-acquired shares. The prohibition is confined to the case where the 'same' shares are re-acquired within six months after the disposal (one month in the case of a re-acquisition through a stock exchange).

In speaking of re-acquiring the 'same' shares, paragraph 9 (1) is not to be taken literally. If the taxpayer acquires 'like' shares within the statutory six months or one month, they are to be deemed to be the same shares. This innocent sounding deeming provision could have very unexpected repercussions and paragraph 9 (2) which contains it also cuts down its scope. In the first place there can be only one re-acquisition for one disposal of a share. If there have been two or more disposals, a re-acquisition attracts paragraph o (1) treatment only in relation to one of the disposals, preference being given to the earliest available one, on what we may call 'first out, first in' lines. Where there are several disposals on one day, the shares reacquired are apportioned among those disposals in proportion to their respective amounts. Where there are two or more separate reacquisitions, the same 'first out, first in' rule applies. Re-acquisition of the same shares but in a different capacity does not fall within paragraph 9 (1). One example is where a trustee of two different trusts sells shares of one trust and then buys them back on behalf of the other trust. In both transactions he has the capacity of trustee, but it is two different capacities. Otherwise the first trust would be treated most unfairly.

# Accounting Principles — a Re-appraisal

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#### Introduction

T is probably true to say that in any book on accounting there will appear at some point in the text a reference to 'principles', but on few occasions have attempts been made to identify the nature of such principles. It is not of course intended to imply that no exploratory work has been undertaken in this field, and considerable credit is due to those pioneers who have 'blazed the trail' in what has been referred to as 'fundamental research in accounting'. Thus, in Britain we are particularly indebted to the inspiration and writings of such men as the late Mr F. R. M. de Paula, Mr Bertram Nelson, Mr Harry Norris, Mr F. S. Bray and Professor W. T. Baxter.

In the majority of textbooks it is obvious that the word 'principle' is used in the widest possible sense of 'working rule'; or it is perhaps even applied as a descriptive label to some practical procedure which has become hallowed by convention and constant usage, thus showing some affinity with, say, a principle of the common law.

However, apart from its use in this descriptive sense and its widely accepted recognition in the ethical and legal sense as applied to accounting statements, there can be no doubt that there are some accounting principles which are absolutely fundamental, basic, and permanent, but which are not necessarily solely applicable to the discipline of accounting. The main difficulty seems to be to segregate general principles from those which govern particular circumstances or systems, and it is here that accounting comes under fire, not only from within, but also from students and scholars in other disciplines who seek some acquaintanceship with the subject, or who, as in economic analysis, wish to apply its techniques in sectors extending far beyond the confines of the individual business unit.

At the root of this difficulty there lies of course the neglect to indicate the nature of any assumptions which have been introduced, or in fact the failure to state that any assumptions have been introduced at all. In the result, no distinction is drawn between fundamental principles and derived principles and procedures. A fairly obvious example may be taken from the statement:

'transactions of an economic unit are expressed in terms of a common medium of exchange',1

which E. L. Kohler regards as an axiom. As a general proposition this is presumably unassailable, but when applied to conditions of monetary instability some assumption is obviously implied, and unless such assumption is actually expressed, misunderstanding must inevitably arise in some quarters. Professor R. J. Chambers put it in this way:

"The unfruitfulness of exchanges between accountants and economists in the past seems to have been due to the neglect to discuss assumptions. A theory of accounting in which the assumptions are disclosed may help in this direction."

#### NEED TO IDENTIFY PRINCIPLES

The justification for this brief survey rests on two basic requirements, both of which it is considered must be fulfilled if accounting is to maintain – perhaps even attain – its rightful place among other branches of higher learning. These are:

- (i) The need for a rational exposition of basic principles and clearly stated assumptions so that some of the causes of misunderstanding between accountants and others may be removed.
- (ii) The need for students to distinguish basic principles from rules of procedure, so that their critical faculties will not be dulled by accepting without question what are in fact merely timehonoured practices, important though these may be.

The accountant who is fully engaged in practice or in industry has of course little time to speculate on questions of this kind, and there will no doubt be some who consider such a matter to be of purely academic interest. Others may

<sup>&</sup>lt;sup>1</sup>·E. L. Kohler: A Dictionary for Accountants. (Prentice-Hall.)

<sup>&</sup>lt;sup>2</sup> 'Blueprint for a theory of accounting', Accounting Research, Vol. 6, No 1. January 1955.

suggest that the 'Recommendations on accounting principles' issued from time to time by the Council of The Institute of Chartered Accountants in England and Wales cover all that need be said on the matter, overlooking perhaps the fact that the Council of the Institute itself makes no such claim. Thus, in the preamble to the Recommendations the hope is expressed that they will be 'helpful to members in advising, in appropriate cases, as to what is regarded as the best practice'. Surely these words indicate that it is in the context of 'best practice' that their importance should be evaluated.

I am reminded of an incident which occurred some few years ago when I was approached by an Oxford graduate, of considerable experience and ability as an administrator, who wished for the first time to make a study of accounting. His line of approach, natural in one of his background and training, was to try to discover the fundamental principles of the subject, leaving matters of detail to be introduced subsequently. He was therefore primarily concerned with finding some publication which dealt essentially with matters of principle.

In the U.S.A. the position in this respect is not so very different from that in Britain, and the layman or student of accounting may well think that there exists in that country some formalized published statement of principles when he sees in an audit report a reference to 'generally accepted accounting principles'. There is, of course, no clearly defined statement of this kind, although the American Institute of Certified Public Accountants and the American Accounting Association have, like the English Institute, made pronouncements from time to time which have affixed the stamp of authority to a substantial body of rules. The case against official pronouncements on theory, and the possible long-term effects which authoritative pronouncements of this kind might have on the independence of judgment of the individual, were forcibly expressed by Professor Baxter in 1953<sup>1</sup>, and it is not proposed to pursue this particular matter now. Suffice it to say that there is as yet little evidence to show that Professor Baxter's fears have been realized.

At this point it seems appropriate to attempt to indicate specifically those elements which can be construed as basic general principles on which the structure of accounting is founded, proceeding thence to some brief consideration of the nature of accounting theory.

#### GENERALLY RECOGNIZED PRINCIPLES

E. L. Kohler defines a 'principle' in this way:

'A proposition asserted to be controlling in a given system or domain of inquiry and having acceptance among members of a professional group deemed to be competent in a society; growing out of observation, reason, or experiment, a principle purports to be the best possible guide in the choice of alternatives leading to the qualities desired in an end product.'

The reference to 'members of a professional group' would seem to be relevant only in a particular context and there is some danger in the second part of the definition of confusing 'principle' with a rule to guide conduct, but subject to this the definition will serve well as a basis for discussion.

Reference to the various papers delivered at the Seventh International Congress of Accountants held at Amsterdam in 1957, and presented within the framework of the general topic 'Principles for the accountant's profession', provides very little help in the search for the fundamentals on which accounting is based since, as one might expect from the title, emphasis is placed rather on ethical principles such as 'truth' and 'fairness', and principles of design, such as 'clarity'. These nevertheless can be accepted as principles which are of general application to any situation in which accounting plays a part; in fact, it may well be argued that it is principles of this nature which provide the solid foundation for the structure of accounting.

Mr Maurice Peloubet, C.P.A., writing in the Journal of Accountancy (New York)2, recognized only three 'fixed and unchangeable principles of accounting - consistency, materiality and disclosure'. Replying to a suggestion that the term 'canons' be substituted for 'accounting principles', he argued that the choices constantly presented to accountants in their application of accounting principles, and the 'directness' and 'authoritativeness' associated with the word 'canon' made its use inappropriate in this context. No doubt he had in mind the difficulty of differentiating those principles which remain valid in all circumstances from those which are tenable only in relation to particular accounting situations; a difficulty which might, as previously stated, possibly be overcome by a clear indication of assumptions.

With the statement of principles which has so far emerged in this survey there can presumably be very little quarrel, and such principles may be

<sup>&</sup>lt;sup>1</sup> See 'Recommendations on accounting theory'. The Accountant, October 10th, 1953.

<sup>&</sup>lt;sup>2</sup> The Accountant, May 9th, 1959 ("The Accounting World - "Canons" of Accountancy?").

summarized as: truth and fairness; consistency; materiality; and disclosure. Truth and fairness, and materiality, are obviously very closely linked with disclosure, but are separately stated here for convenience.

From this point onwards, however, there is likely to be far less agreement on the topic of what can be properly classifiable as accounting principles, but certain it is that most, if not all, of those which it is proposed to consider, are by no means confined to the field of accounting and are equally applicable to other disciplines.

#### CRITICAL SURVEY

#### **General Principles**

Let us proceed then by examining what Mr Kohler has referred to as 'some of the "axioms" often employed in accounting reasoning', remembering that we are here concerned with the identification of those principles which will fit into the *general* framework of accounting. These 'axioms' (or, to maintain consistency, perhaps 'fundamental principles' is preferable) he summarizes in this way:

- (a) an economic unit has an identity apart from other economic units;
- (b) the life of a typical economic unit extends indefinitely into the future;
- (c) relations between economic units are carried on by means of identifiable, separable, and measurable transactions;
- (d) transactions of an economic unit are expressed in terms of a common medium of exchange;
- (e) transactions collectively measure both economic wealth and economic activity.

The first of these is obviously fundamental. It expresses in a different form what Mr F. S. Bray has referred to as 'the entity notion of accounting theory', or what Professor Chambers had in mind when he said:

'There is no such thing as accounting in the abstract; accounts are kept for entities which are recognized in other fields of discourse, chiefly in economics and Government.'

This, then, requires no elaboration unless it is preferred to put it more in the context of accounting, in which case it might be expressed in this way: 'Since accounting is a service function, the system of accounting and the form of accounting statements are dependent on the nature of the entity.'

The second of the 'principles' referred to above is the same as Bray's 'continuing entity concept'. This is probably universally accepted, but is not universally valid. Thus, a theory of profit developed on the assumption of a continuing entity will not be equally valid if applied to a 'liquidated' venture.

Possibly the word 'typical' is itself sufficient qualification, but in view of the assumption inherent in this 'principle', a re-statement would seem to be desirable in something like the following form: 'The concept of a continuing entity implies the necessity for periodic measurement of income and wealth, and as a corollary, the necessity to distinguish between capital and revenue and the need to match costs with revenues.'

The identification, separation, and measurement of every individual transaction is perhaps not essential to the process of measurement of the total periodic income and wealth of an accounting entity, but it is essential to the portrayal of the composition of such income and wealth. Since, then, the third proposition would seem to be fundamental in any accounting system, it may on these grounds be accepted as a basic principle.

The fourth proposition does not necessarily imply that transactions of an economic unit will in all cases be expressed in monetary terms, and it is therefore sufficiently general to admit the possibility of a medium of exchange other than money. It makes no reference to conditions of monetary stability, but nevertheless raises the implication that transactions are recorded in stable units of account. There is on this ground no cause to reject it as a statement of general principle, but unrealistic assumptions of monetary stability, unless clearly stated, can only evoke criticism of accounting statements on the ground that they are not compatible with the idea of accounting as a service function.

Kohler's fifth proposition is derived from the concept of periodic income and the concept of wealth which Bray referred to as 'two general economic concepts which are quite central and fundamental to the practice of accounting'. Indeed, Bray regards the measurement of periodic income and the measurement of wealth as 'the purposes which finally resolve the structure of all accounts'. Since no reference is made in Kohler's statement to 'periodic' economic activity, it is sufficiently general to apply to all forms of economic activity, whether continuing or completed, and whatever the nature of the entity. It has therefore the qualities of a basic principle. Indeed, possibly with some slight modification, it would seem that all five of Kohler's propositions can likewise be accepted as general principles.

#### Working Rules and Principles of Design

Bray makes no specific reference to the second and third of Kohler's propositions, but by implication would probably accept them as principles. In any event he would add the following:

(i) the concept underlying the double entry technique;

(ii) the principle of accounting design inherent in the necessity 'to measure periodic income; to show its transfer and disposition; to explain the application of retained income or saving and its effect upon wealth and capital changes; to measure and portray those resources which together make up the wealth of an entity'.

There would seem to be no objection to the inclusion as a principle of the idea behind the time-honoured double-entry technique. A statement to the effect that 'every transaction has a twofold aspect' needs no explanation here and can hardly be denied despite its lack of sophistication. The fact that in some particular entity single-entry may be preferred to double-entry does not affect the validity of the statement as a principle; it merely indicates the preference for some particular recording device.

The importance of accounting design to which Bray has referred cannot be over-emphasized, but I would hesitate to regard this as a principle. Matters of design, it would seem, fall more properly into the category of 'conventions'.

Writing in 1953, Mr Bray referred to 'two further working rules which are usually taken for principles'. He went on to say:

'I refer to the application of accounting periods from which we derive our notions of accrual and deferment, and the dependence of income measurement on realization involving a cost sterilization of uncompleted transactions.'<sup>2</sup>

A certain reluctance to accept these as principles seems to be implied by the reference to 'working rules' and it is in fact suggested that the latter description is more appropriate. It is obvious that they are derived from the continuing entity concept and a re-statement of that principle, as previously indicated, would seem to cover the point.

It should be emphasized that this discussion of accounting principles has been restricted deliberately to those which can be construed as basic, or of general application to all kinds of situations for which accounting statements might be required. Any reference to principles of asset valuation or principles of profit determination, essential in a theory of accounting, have been omitted advisedly on the grounds that there is no single principle relating to asset valuation which remains valid in all circumstances, nor it would seem is there any unique principle on which a universally applicable theory of profits may be built. The dependence of theory on basic principles leads us to a brief consideration of the nature of theory in the realm of accounting.

#### Nature of Accounting Theory

The essential object of seeking to build up a theory is to set up models, on the basis of certain defined assumptions, with which unsystematic practices may be compared, or, as Mr Harry Norris puts it:

'It is possible to derive "first principles" by a process of reasoning more or less abstractly, and then to compare existing usage in accountancy with a theoretical ideal.'3

There is in essence no reason to suppose that the term theory as applied to accounting differs from the meaning attached to it in other fields, although the fact that accounting is an applied field means that the basic principles on which the theory is based are also to be found in other disciplines.

Professor R. J. Chambers has argued with some force that a theory of accounting may proceed

'upon the same basis substantially as any other theory; that is, by building up a series of relevant propositions from a few fundamental assumptions or axioms'.

A parallel may be drawn with economic theory (or economic analysis) which, in seeking to explain the way in which an economic system works, assumes the existence of certain conditions in the economy which forms the subject of the analysis; for example, it introduces the assumption of 'economic rationality'; and then proceeds to draw certain inferences or deductions which are in the nature of economic theories. A theory of accounting must likewise, as Chambers recognizes, assume not only the existence of different forms of entities but also the rationality of management of such entities. He would also introduce two other fundamental assumptions, viz: the recognition of the monetary unit as a convenient common denominator in the presentation of accounting statements; and the recognition that accounting is a service function,

<sup>&</sup>lt;sup>1</sup> Accounting Principles - Four Essays in Accounting Theory, (Oxford University Press.)

<sup>&</sup>lt;sup>2</sup> 'An accounting progression', Accounting Research, Vol 4, No 2, April 1953.

<sup>3</sup> Harry Norris, Accounting Theory (Pitman).

implying, for example, the right on the part of management to have full and relevant information.

The existence of a formal information-providing system is, Chambers points out, a corollary of the assumption of rational management and such system should be not only logically consistent but also should yield information which is relevant. Consistency in the logical sense would imply that 'equal things should be represented by equal symbols'. This leads him to the problem of accounting under conditions of instability, in regard to which he concludes:

"There has been no recognition of the possibility that all that is involved is a regrouping of assumptions, or the substitution of a realistic assumption for an unrealistic one. It is not a question of working out entirely new "principles"."

Professor Baxter summed up the nature of theory in this way:

'By theory is meant the attempt to explain, in terms of fundamentals, what accounting is and what it tries to do; accounting is thus assumed to be a branch of knowledge, like law or physics, with basic principles that are worth exploring'.

#### Conclusion

It is probably fair criticism to say that even at the present time there is little justification for referring to 'a philosophy of accounting'. It is probably also fair to suggest that accounting has, as yet, not proceeded very far in the direction of acquiring a scientific outlook; more is required to be done to test the validity of propositions and to ensure that unreal assumptions are not admitted; more attention must be paid to the need for experiment and proof and to the need for approaching problems with a certain detachment and objectivity with a view to seeking truth for its own sake.

Nevertheless, it seems to be quite unjust to suggest that the rules applied in accounting are purely matters of convention unsupported by reason. Undoubtedly there are conventions, and perhaps these are often accepted without question, but as Mr Harry Norris pointed out: 'They are only admissible on grounds of convenience, and, in the last resort, are governed by logical principles.'

He supports the contention in this way:

"... our procedure means nothing if it does not aim at a truth which is determinate. That is to say that "net income" does mean something quite apart from what we do to measure it: it has objective significance, and our methods of measurement are only valid in so far as they subserve the principles of measurement".

When putting forward his system of propositions indicated above, Chambers would admit only one kind of convention, namely, conventions as to formal arrangement. 'Everything else', he added, 'is too significant to be treated as convention only'. Perhaps a suitable note on which to end!

# The Accounting World

#### TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

#### The Profession in Switzerland

A CORRESPONDENT states that the concluding paragraph in the article on "The Profession in Switzerland" in *The Accountant* of September 1st is not entirely accurate. The first sentence in the paragraph relates to examinations by independent professional public accountants (article 723 of the Code of Obligations) and should read as follows:

'Where a company has an authorized capital of S.Fcs.5 millions or more, or has issued bonds or debentures, or publicly announces that it accepts deposits from third parties, the management is required to have the accounts examined by independent accountants. The report on such an examination is to be brought to the attention of the board of directors and the statutory auditors.'

The remainder of the paragraph, on the other

hand, concerns statutory auditors. The information is in order with the exception of the reference to the Chamber of Commerce which does not, in fact, come into the picture as regards the statutory audit report.

We are indebted to our correspondent for the following (freely translated) extracts from clauses in the Swiss Code of Obligations relating to statutory audits and reports.

' 'Article 727. The general meeting must elect one or more statutory auditors.

'The statutory auditors may not be appointed, on the first occasion, for longer than a year and, subsequently, for not more than three years.

'Article 728. The statutory auditors are required to examine whether the balance sheet and profit and loss account are in accordance with the books, whether the books have been properly kept, and whether the financial position and the results of the

<sup>&</sup>lt;sup>1</sup> 'Recommendations on Accounting Theory'. The Accountant, October 10th, 1953.

business are presented in accordance with the legal rules as to valuation and, where applicable, with any

special provisions in the statutes.

"The management must make available to the statutory auditors the books of account and supporting documents and, at their request, furnish information regarding the "inventory" (statement of assets and liabilities) and the bases on which it has been established and give explanations regarding any particular transactions.

Article 729. The statutory auditors must present to the general meeting a written report on the balance sheet and financial statements submitted by the management, in which they propose either that the accounts be adopted, with or without reservations, or that they be referred back to the management; they must also express an opinion on the proposals of the board of directors as to appropriations of profit.

"The general meeting can take no decision regarding the accounts unless such a report has been sub-

mitted.

'Any irregularities or breaches of legal or statutory requirements which the statutory auditors may discover when carrying out their work must be notified to the departmental head to which the person responsible is directly subordinated and also to the chairman of the board of directors; in important cases, they are also to be reported to the general meeting of the members.

"The statutory auditors are required to attend at

the ordinary general meeting.

#### BELGIUM

#### Political Economy and Accounting

THE development of political economy as a study of macro-economics which found in J. M. Keynes its first great demonstrator, has resulted in a divorce between political economy and business economics. Those who belong to each of these two sectors no longer understand one another. For business economists, the professors are 'the others'; for the political economists, it is the accountants who are out of step. It is high time that macro-economics and micro-economics were integrated again, observed a commentator in the bulletin of the College National des Experts Comptables de Belgique.

There are, however, signs of a reconciliation on the Continent – business studies in the universities, formation of national productivity agencies, the development of national 'programmes' or plans in France and Holland. The change from static accounting to dynamic accounting, based on a study of the firm's functions, provides a means whereby the link between the two kinds of economics can be forged on a scientific basis. Thus, the important public sector is moving towards an improvement in its accounting techniques, and in some countries this is enabling national accounts to be made up.

For this purpose, it was stated, the following figures must be available:

(1) turnover, or rather the value added by the

firm, business or profession, in forming the gross national product;

- (2) analysis of the distribution of revenues into wages (direct and indirect) rent, interest, depreciation, taxes, dividends and retained in the business;
- (3) analysis of expenditure into consumption and investment.

Although some companies may not be inclined to make this information public, it would be possible to communicate them to a national or international statistical office to be used under conditions of secrecy. The statistical office of the European Economic Community is said to be conducting an investigation into this question. By taking cognizance of these developments, accounting can enter into a third stage of its history; first static, then dynamic, finally economic.

## **CANADA**

# Royal Commission on Taxation

MR KENNETH Lem. CARTER, F.C.A., a Past President of The Institute of Chartered Accountants of Ontario, a former chairman of the Canadian Tax Foundation and a partner in the firms of McDonald, Currie & Co, Cooper Brothers & Co and Coopers & Lybrand, has been appointed chairman of a Royal Commission on Taxation. The Commission's terms of reference will deal with the subject of Federal taxation as a whole including, in particular, its effect on the country's economy.

#### OVERSEAS TAX DEVELOPMENTS

The following information has been supplied by the Foreign Section of the Library of the Board of Inland Revenue.

### Aden

The Income Tax (Amendment) Ordinance 1962, effective from April 1st, 1961, makes the following changes:

Personal allowances are not available to an individual, part of whose income is exempt as being Forces pay from a Commonwealth country and the remainder of which is charged at the 'non-exempt individual' rate.

The child and dependent allowances are replaced by a general allowance of £70 for each dependant, up to a maximum of six, maintained by a resident tax-payer and coming within the following categories:

- (i) a male child under 16, or one over that age receiving full-time education, articled or indentured, or totally incapacitated;
- (ii) an unmarried, widowed or divorced female child;
- (iii) any wife in excess of the first;
- (iv) his parents or the parents of any wife of his.

The allowance is not given if the dependant has income over £170 excluding scholarships; and is limited to the actual amount expended.

An education allowance is introduced, being the amount of boarding or tuition fees paid in respect of a child of a resident taxpayer of at least 6 years of age, up to a maximum of £100. The allowance is also restricted to the excess of the fees over scholarships, employer's education grants and the child's own income in excess of £170.

Life insurance etc. The existing restriction of the allowance so as not to reduce the tax payable below certain amounts is replaced by a restriction of the premiums and contributions allowable to £200 plus one-half of the excess thereof over £200.

Payment of tax. The second half of tax over £100 is now due by the following February 28th instead of March 31st.

Under G.N. No. 58 of 1962 an investment allowance of 15 per cent for industrial buildings and 33\frac{1}{3} per cent for new plant and machinery is introduced from April 1st, 1962. This allowance is in lieu of the initial allowances of 10 per cent and 20 per cent respectively and is not taken into account in computing written-down values or balancing charges etc.

#### India

It is understood that the proposal to increase the rate of tax paid by Indian companies does not extend to income derived from exports.

# The Training of Accountants for Industrial Responsibilities – I

by G. W. SEARLE, D.S.C., F.C.A.

#### Introduction

S a preface to this address I must make the point that this is not the work of a specialist in the subject nor is it the result of considerable research. I write merely as one who has himself progressed through a period of service under articles, a period of service in a practising accountant's office and then (subject to a break caused by the war) into an appointment as an 'accountant in industry'. Subsequently I have seen many others follow a somewhat similar career and I have been in many cases interested in their ability to undertake quickly and efficiently the work expected of them in industry. The address I am writing contains nothing more than my personal views on the subject and these views arise both from my own career and from the observation of the careers of others.

2. A useful start to the address will be to define the subject more closely.

## **Definition of Subject**

- 3. I think the definition should be in three parts. Firstly there is "Training". We are training ourselves or being trained in some way for nearly all our lives but it is not my intention to try to relate any part of parental care nor the curriculum of school or university to the abilities of an accountant in industry. These may give the personal qualities and the education required for a career but they are not the training I wish to cover in this address.
- 4. The earliest point I wish to take is the period of service under articles: a period of training designed primarily to fit candidates for entry into practice but also utilized effectively as an introduction to industrial

accountancy. Service under articles is, in fact, the only initial training period for those who (perhaps unfortunately from the training aspect) take an industrial accountancy appointment immediately after qualifying as chartered accountants.

5. Whatever the training before qualification it is only the inexperienced articled clerk who thinks that, when his Final examination is passed, his training period is over. I borrow the slogan of a famous American business school when I say that education is a 'continuous voyage' and, therefore, when I speak of training I should not confine myself to any particular period of an accountant's career. I suggest, however, that the major part of training and the major advances in the acquisition of knowledge must normally be made on the younger side of thirty. While the 'over-thirties' who attend summer schools and many similar activities to further their training and education uphold the very proper principle that training never ends, I cannot miss the

Mr G. W. SEARLE, D.S.C., F.C.A., author of this paper, presented at the Oxford Summer Course of The Institute of Chartered Accountants in England and Wales last Monday, is general manager, Finance and Accounts Department, British Petroleum Co Ltd. He was admitted to membership of the Institute in 1936.



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atture for which chartered
proyed by industrial organizate heading of 'specialized nature' I
Adnotions such as those relating to taxation,
investments, secretarial and registrars' duties and
similar matters for which one needs specialized
experience and which are outside the scope of this
paper. The responsibilities I shall refer to are those
of a general nature which normally fall within (or
should fall within) the province of accountants in an

(a) The accounting function: the books of account, the preparation of accounts;

industrial concern. I would list these as:

- (b) Costing and budgetary control in whatever form the industry finds appropriate;
- (c) Trading and financial estimating and forecasting;
- (d) The treasury function: cash and short-term investments, management of the company's financial resources.
- ro. In listing these as four separate headings I do not wish to imply that rigid dividing lines can, or should, be drawn between them. That is not so. Operationally, they form one system but it is convenient, I think, to make a separation for the purpose of my particular paper and these four parts seem an appropriate degree of separation.
- separation there is another division which can be made horizontally across all the four vertical lines. These 'horizontal' responsibilities, which I put at

planning and

- (f) Mechanization of proving accounting, techniques: in short, the operating enterency of accounting procedures;
- (g) Staff administration: which, though put last must be well carried out if any organization is to prosper and be the place where a competen individual is satisfied to make his career.

## Order of Address

12. The theme of this address is, of course, directed towards training. I have defined briefly the trainer who is the subject of my remarks and the duties for which I am considering his training. I now propose to go into rather more detail and, while I aim to conclude with my views on training itself, I would first like to review the 'Industrial responsibilities' and then the 'Accountant' with particular reference to the training requirements as I see them.

## **Industrial Responsibilities**

## The accounting function

- 13. If there is one thing on which an accountan should have a good grounding before he enters as industrial concern it is surely the function covereby the title 'book-keeping and accounts'. On thes matters he spends a considerable part of his time under articles and on these matters he is ver thoroughly examined at both Intermediate and Final examinations.
- 14. Of course, in industry, he is on the other sid of the fence and instead of seeing these duties from the standpoint of the practitioner he becomes directly involved in the organization of an accounting depart ment, the laying down of procedures and the accept ance of personal and direct responsibility for all the necessary actions of an accounting department or par of an accounting department. In general, however the competent man should find no great difficulty is the change of attitude nor in his new duties, although he may be handicapped by lack of organizing experience and by never having had to deal with an considerable body of staff. This is one of the matter on which training may be necessary in his nev appointment and such training is often by the hard way of practical experience and learning by mistakes
- 15. I think this is an appropriate place to commen on the difficulty which may be faced by industria concerns in finding competent accountants to under take this most important work which is the foundation-stone on which is constructed those parts of the accountants' edifice which are more evident to the outside world.

y, it does appear that accountants wish to do is business.

17. This is a great pity, and here I am thinking mainly of the younger men and those recruited as non-specialists, for there is probably no quicker way of obtaining a view of the business, the organization, its personnel and prospects than to take a position of reasonable, but by no means high ranking, seniority in the basic recording side of the accounts department. My remarks apply equally to the internal audit function. Yet it is a hard fact which has to be faced when recruiting young accountants that, if you want most of them to withdraw their application quickly, you have only to say that you want them to work on the keeping and preparation of accounts or that you want them to join the internal auditors.

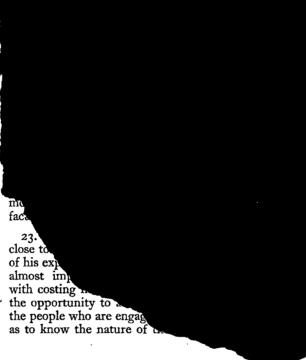
18. A chartered accountant with only a short time to his credit since qualifying has much to learn of industrial practice in general and everything to learn about the organization he joins. Particularly if it is a large organization which he is joining, a term with the basic accounting functions, or with the internal auditors who cover these functions, is a quick route to all-round knowledge provided that his employer is also prepared to participate in the operation by seeing that positions of appropriate scope and authority are given to the young qualified man.

19. It is unnecessary for me to say more in this address on the accounting function as one of the industrial responsibilities, so I have mentioned particularly its importance as training for other responsibilities. Nevertheless I have referred to the accounting function as the foundation-stone of the accountants' edifice and anyone who lays and maintains in good order such a foundation-stone, exposed to an unusual degree to the 'winds of change', is doing a job of great importance in itself, quite apart from the benefit he himself will derive from the process.

## Costing and budgetary control

20. The shelves of the Institute library groan under the weight of books on these and allied subjects, so any description of duties in this respect would be superfluous. It would also be foolish because costing is essentially a practical subject which must be tailored according to the needs of the particular industry or part of the industry.

21. I am going to suggest that, in general, newly qualified chartered accountants have little practical experience of costing and that their theoretical studies on the subject are by no means extensive.



# Trading and financial estimating and forecasting

24. I have listed this as a main function because it clearly is such, although in practice it may be so bound up with financial accounting, costing and budgetary control responsibilities that it does not appear as a separate function.

25. There is no need to emphasize that business has the need to look ahead and to plan: it has the need to record what it has done and to be selfcritical: it has the need to compare plan with performance. In all this the accounting department is the centralizing or co-ordinating factor. Naturally the accountants are not themselves the planners; they work with the functional departments and they translate the organization's aims into terms of financial expectations. There should be nothing here in principle which an intelligent qualified man cannot learn to do: and when I say 'learn' there is little doubt that this must be done in almost all circumstances. Maybe a young qualified man has done such work, but even if he is acquainted with the work in general there are always new aspects to take into account: a thorough knowledge of the business, a thorough knowledge of the individuals in the functional departments whether they are engineers or salesmen, and finally and most importantly an ability to work in a team with such other people. There is con-

sequently little experience or training here other than steady, intelligent and understanding application while on the job itself.

# The treasury function

26. The general run of qualified accountants have some general knowledge to a greater or lesser degree, according to the work they have done, on the treasury function of a business. The work of a cashier is known to them, the management of the financial resources of a large industrial concern may be new in scope but at least they know enough to consult specialists in this field and there is no reason to suggest any inadequacy in training for general day-to-day work. Anything more than this comes into the category of speciality which I am not intending to cover.

# The accounting service to management

- 27. In the four preceding sub-headings I have mentioned four responsibilities: accounting, costing and budgetary control, estimating and the treasury function. In all of these there is an implied and essential management service. In none of them is the operation performed solely for the professional gratification of the accountant or as an operation to be separated by a mystery of technique from the functional management of business.
- 28. I hope I have indicated this in the preceding paragraphs and it would be impossible in this address to describe adequately the assistance which the accountant should give to his management. Let me say that the accountant in industry should always have in his mind the object of his endeavours and such object is in part the carrying out of certain basic duties as accountant and in part the knitting of those duties into direct assistance to the effort of management.
  - 29. To revert to the four preceding sub-headings:
  - (a) the accounts must inform quickly and adequately the facts of business operations;
  - (b) the costs and budgetary control besides assisting detailed supervision by functional management at all levels must demonstrate in financial terms the plans and measure their achievement;
  - (c) trading and financial forecasting, properly integrated with budgets and properly drawn up from the plans of functional authorities are the essential background of the industrial policies of the management; and
  - (d) the treasury function, properly planned and reported, is the same check on financial forecasting as the accounting function is on the trading forecasts.
- 30. I wonder whether young qualified accountants who are in a practising office really have knowledge or appreciation of the ways in which the accountant

- should render such a service to management. Some firms, and perhaps some of the smaller a specialist service which is directed wards the provision of a management accounting ervice for their clients. But I suppose it is fair to say that the general run of professional firms apply themselves mainly to audit, the preparation of annual accounts and the provision of a taxation service. I have no doubt that many of those engaged on the audit have been heard to say 'If I were running this business I would do so-and-so' and I have no doubt that the partners give much useful (and possibly unpaid and for that reason unheeded) advice to the managers or owners of the business. This, however, is piecemeal activity without the spur of necessity or the benefit of long-term constructive planning.
- 31. The average young qualified man on general audit duties will consider the whole service of management accounting according to his inclination and according to the time he has available. He is chased, I expect, from one audit to another and, with his time watched by his principals and by the client, he may reasonably infer that he is not expected or encouraged to delve into the service which the accounts he is dealing with render to the management of the business.
- 32. Certainly it appears from the recruits an industrial organization obtains that they are anxious to join such an organization for the purpose of learning something of management accounting and rarely credit themselves with much experience in such arts. Which means this in short: that they have rarely, or never, been expected to think on the side of management of a business and they have rarely, or never, been faced with the question: 'What would you do?'
- 33. I remember one instance where a young professional man, who had recently taken up an industrial appointment, investigated a project and at the end he reported to the director in charge, and he reported clearly and in detail giving the points for and the arguments against. The director listened patiently and at the end said: "Tell me, what action do you recommend that I take as a result of your report.' At which the young man hesitated and then drawing himself up said: 'Sir, never in my experience have I been asked such a direct question.'
- 34. There is all the world of difference between advising and taking the decision. There is nearly as much difference between pointing out the arguments, for and against, and coming down squarely with a recommendation. I wonder whether we neglect the training of our young accountants by failing to inisst on a recommendation when we ask for a report on any subject which calls for a decision.
- 35. I wonder whether we neglect the training of our young accountants if we only ask them whether the audit is complete and do not ask whether in their opinion the management of that business is properly

and adequately advised and assisted by its accounting service. How will articled clerks or your mulified accountants be encouraged to interest such things unless their principals show that the expect such things to be considered? This field is of fundamental importance to industry and to the accounting profession and I can only hope that our, articled clerks and our young qualified men make the most of their excellent opportunities to see what is being done in this field.

# Mechanization or operating efficiency of accounting procedures

- 36. Mechanization is a specialized subject in its detailed application. To know how a machine operates, what its capabilities are and how to programme its work need a study beyond the general acquaintance which is all that many accountants have and the problem becomes worse as the variety of machines multiples each year. No accountant in an industrial organization can, however, carry out his duties without a general knowledge of such things, the ability to comprehend how machines can be used and sufficient acquaintance with their capabilities to be able to realize when the time has come to seek more expert knowledge.
  - 37. Not many newly-qualified chartered accountants have detailed acquaintance with a mechanized system over a reasonably long period. Planning the installation of a system or operating a mechanized system of any complexity therefore requires further experience and opportunities should be seized of acquiring such experience as part of training in the groundwork of industrial accounting procedures.
  - 38. The important thing is, of course, a properly organized 'accounting procedure'. With this objective clearly in mind the accountant should have sufficient knowledge to be able, with the help of specialists, to marry the required procedure with the mechanical or electronic possibilities. He will certainly have to weigh the operational advantages and the costs of alternative systems and, with the widening coverage of mechanized or electronic aids, few accountants interested in the improvement of their procedures and their service to management will feel able to neglect their continued education in this subject. I would make a plea that in their younger days they should prepare themselves adequately by obtaining experience in detail of the complexities of a mechanized accounting system.
  - 39. I mentioned electronic aids and it may be appropriate to add a few more comments on the subject of computers which, as I see it, may be roughly divided into two categories.
  - 40. Firstly the somewhat smaller mechanisms which, equipped with 'memory' and with remarkable speed and reproduction facilities, are nevertheless designed for routine operations and fit admirably the more elaborate and repetitive accounting tasks. Except

- for the greater degree of complexity and scope, the installation requirements are not different from those of a punched-card system or even a keyboard accounting machine. It requires a knowledge of the business and machine experience (but there has to be a first-time). It requires the ability and enthusiasm to plan and to pay attention to detail.
- 41. Secondly the larger mechanisms of the computer family which are designed more for the rapid solution of scientific or mathematical problems of considerable magnitude and complexity. It is these computers which industrial concerns are using to find better answers to operational problems: such work coming under the heading of operational research. This work can be of the utmost benefit to concerns with a large number of variables in their plan of trading and to have the best of a complex set of variables quickly solved by computer can clearly pay handsomely.
- 42. An accountant is not necessarily a statistician nor a mathematician, but if he is to assist in posing the problem to be solved by the computer he must be aware of certain basic statistical methods and mathematical techniques. There are some problems which do not involve costs but they are very few and normally no computer-directed operational plan can be achieved without the accountant supplying the costs which matter. A computer solution is as good as the facts fed into the programme and you will appreciate that, having fed a programme into the machine, the answer is not necessarily checked by noncomputer methods. I regard it as essential to have an accountant in the computer team who is responsible for the provision of appropriate and up-to-date cost information. To discharge these responsibilities he must have an all-round knowledge of the problem and the means being applied to its solution. Yet, and now I come to a point of training from its earliest stages, I have doubts whether in general young chartered accountants are, without further training, the most suitable to deal with this work owing to the qualifications of others who have studied more of statistics and who have a wider knowledge of mathematics than that demanded for the qualification of a chartered accountant.

## Staff administration

43. There are those who hold that these matters cannot be learned from books or from lectures. It may be true that the hard way of tough experience is the only way to learn leadership and to learn how to control, organize and direct staff. Probably the smaller accountants' offices have few opportunities of teaching such matters and the organization of any practitioner's office is so different from that of a large industrial unit that, until an accountant joins such an industrial unit, it may be fair to say that he can receive little practical training to help him in the administrative problems he will meet in industry. Nevertheless, an accountant with an industrial

of inter-firm comparisons, the following essential factors should be considered:

(1) that the ratios selected will be suitable and the most indicative for the particular purpose;

(2) that a consistent definition of terms should be established so that the information submitted by firms taking part will be comparable;

(3) that participating firms will be given sufficient comparative information to enable them to detect where improvements in their businesses may be made;

(4) that participants should be helped to draw useful conclusions from the differences between their own figures and those of other similar firms;

(5) that the confidential nature of figures submitted by participants should be safeguarded.

Mr Kendall went on to discuss the system organized by the British Federation of Master Printers. He stated that there were some four thousand firms in membership of the Federation covering all types of printing and bookbinding businesses and the scheme now had some four hundred participants. Since the introduction of the scheme in 1957, said Mr Kendall, there had been a greater willingness on the part of member firms to discuss their ratios with other firms and generally a greater readiness to exchange information.

## **Inventory Control**

On Thursday morning, Mr J. Borsay, F.C.W.A., of Associated Electrical Industries Ltd, and a Past President of the Institute, gave a paper on 'Inventory

control'. In any control system, he said, there must be a standard fixed cost against which performance can be measured. Capital employed was increasingly being used for profit measurement, and as inventory was a major constituent of capital employed it was useful to measure the profit/ capital employed relationship. Inventory eventually became output, that is if the business was to continue, and the relationship of



Mr J. Borsay

one to the other was the most commonly used yardstick for measuring inventory efficiency. This, he said, could be expressed in the number of times the inventory had been 'turned over' per annum or, alternatively, by expressing the inventory as a percentage of the output, e.g.

Inventory Output

Three distinct indices may be obtained by the use of this formula:

'(1) The moving annual average of inventory related to the moving annual total of output. This has the fault of not highlighting the present situation.

(2) The current inventory related to the moving annual total of output. This reflects the current inventory position but relates it to past output.

position but relates it to past output.

(3) The current inventory related to future output. It would appear that as the inventory of today is the output of tomorrow this index is probably the best.'

In a manufacturing organization, said Mr Borsay,

the variety of stock materials, parts and components may be legion and before introducing systems and procedures it is as well to survey the problem in the right perspective. It was well worth while carrying out an analysis of the stocks and classifying them into, say, three categories:

High value (H) Medium value (M) Low value (L)

Experience showed that in a given product the H items might be only 7 per cent of the number of parts yet represent 75 per cent of the value, the M items 22 per cent of the number of parts and 20 per cent of the value, whilst the L items were 71 per cent of the number and only 5 per cent of the value.

Concentration on the H items reduced the field considerably and can produce a high return. It might even pay to schedule these items on an 'as required' basis as an alternative to stocking. The M items could be controlled by the more orthodox methods of perpetual inventory with the use of order level, order points, etc. The L items, by far the largest in number, may be made 'free issue items' the control being effected by dealing with these physically in bulk.

Mr Borsay went on to say that a common cause of inflated inventory was the carrying of stocks of a product at varying stages of manufacture. Relative to a particular product, stocks might be carried as raw material, finished components, or sub and final assemblies. In many cases the decision to stock at one or more of these stages was a rule of thumb action brought about during a state of panic.

What then are the factors which influence the decision to stock at one or more stages of manufacture? he asked. The two principal factors were:

(1) The total cycle time relative to customer delivery requirements.

economic order quantity.

principle time could be segregated into (a) material principle; (b) component manufacture time; (c) 2 19 nb., ome.

If there was no cost advantage from purchasing and manufacturing a quantity other than that to satisfy the customer's requirements and the cycle time was less than the customer's delivery requirements, then no stock of any kind need by carried.

In conclusion, Mr Borsay said that for inventory control to be effective its purpose should be made clear at all levels. There were many ways in which this could be done, including lectures to supervisory staffs and shop stewards and possibly through the medium of a film for the employees on the shop floor. Each shop and stores, he said, should have a target set and the results displayed against that target.

#### SUMMER SCHOOL DINNER

On Friday evening the Summer School Dinner was held in Hall. The toast of 'The University and City of Cambridge' was proposed by Mr E. F. Brown, F.C.W.A., and responses were made by Mr T. R. Henn, C.B.E., M.A., President of St Catharine's, and Alderman G. F. Hickson, M.A., J.P., Mayor of Cambridge.

Mr A. R. M. Keddies, O.B.E., proposed the toast of "The Institute of Cost and Works Accountants' and Mr C. E. Power, F.C.A., F.C.W.A., a Vice-President of the Institute, replied.

# International Tax Conference

# Sixteenth Congress of the International Fiscal Association

The sixteenth congress of the International Fiscal Association was held at Athens from September 19th to 14th. A representative delegation from the United Kingdom was led by Mr Alun G. Davies, chairman

of the United Kingdom Branch.

In his address of welcome, Professor A. J. Sbarounis reminded the Congress that in the ancient Athenian democracy direct taxes were regarded as incompatible with freedom and that the contribution of the citizens was based on spontaneous gifts of blood, time and wealth. The American and French revolutions introduced the idea that the payment of taxation was a civic duty. Referring to the modern problems of international double taxation, Professor Sbarounis said that in the context of assistance from the developed countries to countries in the process of economic development, the priorities of the power to tax should be laid down. He argued that a state not possessing such priority should refrain from levying taxation.

#### Tax Harmonization

Professor Leif Muten, of Uppsala University, Sweden, gave a stimulating talk on the development of international fiscal law, and chose as his themes the harmonization of national tax systems and the fight against real and alleged international tax evasion or avoidance.

On the subject of harmonization, Professor Muten said that from the point of view of inter competition, some degree of harmon necessary but that institutional and politi made total unification impossible. On int taxation, he argued that the adoption of the principle that the country of destination of goods should have the right to tax, was liable to create dumping prices and would prejudice the development of industry in countries where indirect taxation was below the average. The principle of country of origin would be preferable because it would be possible to abolish fiscal frontiers; but the introduction of this principle would be impossible without a far-reaching harmonization of the national tax systems (and, he might have added, some measure of budgetary subventions to avoid fiscal disasters in some countries). The work completed last winter by the Neumark Committee and the fiscal subcommittees of the European Economic Commission were most important events in the progress towards tax harmonization.

#### Converging Tendencies Visible

While Professor Muten said it was permissible to entertain great expectations on the prospects of harmonization, he hoped that international organizations would take a firm stand against all pressure groups fighting for exceptions and loopholes. He added that if an 'added-value' tax was introduced (into the European Economic Community), which seemed quite likely, he hoped it would be really non-cumula-

tive. On this point he seemed to be pressing for the exemption of capital goods from the scope of the tax.

Even outside the Common Market, Professor Muten saw convergent tendencies in tax philosophy, and evidenced the introduction of some measure of capital gains taxation in Britain and Italy and the Belgian proposals for a globular personal income tax. He also mentioned the growing habit throughout the world of taking tax dividends at source in the country of origin. He noted the increasing tendency towards the weakening of the dependence on income and wealth taxes and towards greater emphasis on indirect taxation, and pointed out that the regression of the latter could provoke a possibly dangerous compensating graduation in what remained of direct taxation as well as in what he termed negative taxation (i.e. social security allowances).

## Tax Havens: Criticism of U.S. Proposals

In his second theme, Professor Muten said there was a definite temptation, if not to produce and sell, then at least to show the profits from production and sale in countries where the tax situation is favourable. This tendency still continued, despite the rules in most countries against the hidden export of profits.

He stated that the labelling of such arrangements as tax evasion was based upon principles which were not universally acknowledged, one of them being the principle of domicil which was opposed to the principle of territoriality. Greater authority attached to the latter principle, which imposed equal conditions on all those

competing in the same market.

Professor Muten said there was room for much more discussion on the question whether there was a recognized rule of international law on the territorial limitations of national tax authority. He asked this question in the context of the current United States proposals for taxing United States corporate shareholders on their contingent interest in the nondistributed profits earned by companies outside the U.S.A. He criticized the Kennedy proposals from the standpoint of international comity as violating the rights of other parties to tax agreements signed by the U.S.A. He put the question very bluntly: does the taxation of United States shareholders on the profits of foreign corporations amount to a downright evasion of the established rules of international law by the United States Government?

#### **Dangers of United States Action**

The danger of the United States precedent was also underlined. The United States administration had an extremely strong feeling of international responsibility and this might entitle it to make far-reaching tax investigations in other countries. This did not apply to certain other countries which might well be tempted to follow the United States example. Quod licet Yovi, non licet bovi. (This might be interpreted as saying

that not all tax administrators behave like gentlemen). It was recognized that the proposed rules to be operated by the United States administration arose as a result of the existence of tax havens. The problem would have been better solved by self-restraint. There was room for public discussion in bodies like the International Fiscal Association; a committee of the European Economic Commission was also studying it. Whatever the solution might be, it would be regrettable to try and think of it in terms of the current United States proposals or the termination of existing double tax treaties.

#### **Debate on Indirect Taxation**

The first subject of the Athens Congress was the 'Fiscal régime relating to the import and export of goods'. Under this rather forbidding title the Congress examined the problems of indirect taxation in the international sphere. The debate on this subject had a considerable topicality because of the approaching decisions to be made in the Common Market under article 99 of the Treaty of Rome, on turnover taxes and the possibilities of their early harmonization. The general reporter on the first subject was Professor Sbarounis, and his report showed more admiration of the British system of indirect taxation than was shown in the European Economic Commission in its recent report. He referred with apparent approbation to the heavy British taxation of what he termed 'vicecommodities' (i.e. alcoholic beverages and tobacco).

The resolution adopted by the Congress on indirect taxation recommended that in accordance with the provisions of G.A.T.T., imports should be charged with the same taxes as domestic products, and that exports should be subject to the reimbursement of all indirect taxes. Like most resolutions, it attempted the impossible, and the Congress was very conscious of the fact that one of the basic problems in the export trade today was that where cumulative multistage or 'cascade' taxation exists, it is virtually impossible to assess the amount of taxation paid along the whole line of the production process.

#### Patching up the 'Cascade' Systems

In fact, the resolution attempted to patch up the weaknesses of the current cumulative tax systems (found, for example, in varying degrees of complexity in Germany, Italy, Luxemburg, Holland and Belgium) in relation to exports by a 'pious hope' clause. More than anything else, the resolution reflected the profound German belief that the idiosyncracies of the 'cascade' system penalize exports, by contrast with the clear calculation of export reimbursement possible under the French T.V.A. If, as appears to be the case, the European Economic Commission is on the verge of recommending a tax on added value as the basis of the

indirect taxation in the Common Market, defenders of the 'cascade' system are fighting a lost battle and would be better advised to study the administrative problems of an 'added value tax'.

#### **Investment Trusts of International Character**

The second subject of the Congress was the taxation of investment trusts. As an introduction to the general debate, the general reporter, Mr E. G. Renk of Switzerland, delivered a masterly analysis of the growth of the investment trust movement, described the legal forms which had developed all over the world, and compared the fiscal treatment of investment trusts between one country and another. During the debate that followed it was clear that though there was considerable interest in the subject of the taxation of investment trusts, the very wide variety of treatment between one country and another prevented any real hope of present synthesis. The focus of the hope of reform was that an investor in an investment trust should be put on an equal footing taxwise with the direct investor. In the meanwhile, the Cahier (Vol. 47b) which contains the general and the national reports presented to the Congress forms a mine of useful information for those interested in the comparative international treatment of investment trusts and their shareholders.

## **Future Congresses and Subjects**

It was announced that the 1963 Congress would be held at Paris in the week beginning September 17th. The subjects to be discussed will be, firstly, the tax problems of mergers, and secondly, the fiscal relationships of capital-exporting countries and countries in the process of development. The latter subject is a further extension of previous Congress studies. At Jarusalem last year, a working group composed of re entatives from developed countries and from the Airo-Asian countries and Latin America, was set up entatives from developed countries and from the to prepare a report on the further researches to be made and to facilitate fact-finding.

The Congress for 1964 is to be held in Hamburg and the subjects for study being firstly, the international problems of depreciation in relation to the taxation of trading profits, and secondly, the delimitation, between countries of residence and other countries, of the power to tax corporations and/or their shareholders. In 1965 the Congress will be held in London commencing on September 13th; the subjects for discussion have yet to be fixed.

The United Kingdom branch has arranged an interesting programme for 1962-63. Particulars of I.F.A. and of the activities of the United Kingdom branch may be obtained on application to the Branch Secretary, Mr D. I. Main, F.C.A., c/o Messrs Pannell, Crewdson & Hardy, 9 Basinghall Street, London EC2.

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# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

# FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on July 4th, 1962.

#### Overdue Subscriptions

In addition to similar complaints on which the findings and decisions have already been reported, the committee heard five complaints preferred by the Investigation Committee each to the effect that the member concerned had failed to pay within four months of January 1st, 1962, the subscription then due and payable by him, so as to render himself liable to exclusion or suspension from membership. The committee found the complaint proved in every case and ordered that each of the five members be excluded from membership unless, in the case of four of the members, the subscription the subject of the formal complaint was received by a specified date; and the committee further ordered that if in those four cases the subscription was so received one of the members be reprimanded, one be admonished and no action be taken in the other two

cases and also that there existed in three of these cases special circumstances which justified the omission of the name of the member from the publication of the finding and decision. Three of the four subscriptions were received in the period allowed and the following decisions have therefore become effective:

- (a) Excluded from membership Harold Edwin Coate Davis, F.C.A., 178 High Street Street, Somerset. William Dudley Ward-Smith, F.C.A., 11030 Sandpoint Way, Seattle, Washington, U.S.A.
- (b) Reprimanded Clifford Edgar Levitt, F.C.A., 31 Princess Street, Manchester 2.
- (c) Admonished One member. (d) No action

One member.

## TAXATION AND RESEARCH COMMITTEE

The one hundred and twenty-third meeting of the Committee was held at the Institute on Thursday, September 13th, 1962, at 2 p.m.

Present: Mr J. Cartner (in the chair); Messrs F. W. Allaway, G. R. Appleyard, R. P. Brown, W. R. Carter, R. A. Chermside, N. Cassleton Elliott, C. R. P. Goodwin, A. P. Hughes, G. N. Hunter, H. Kirton, T.D., S. Kitch Yates Lloyd, J. W. Margetts, S. A. Middleton, P. Morgan-Jones, E. J. Newman, R. D. Pearce, T. B. Pritchard, A. H. Proud, J. D. Reekie, D. W. Robertson, H. G. Sergeant, H. C. Shaw, H. Eden Smith, C. C. Taylor, L. R. Turner, D. C. Urry, J. G. Vaughan and G. H. Yarnell, with the two Assistant Secretaries.

## Subcommittee

Reports of progress were received in connection with twenty-three matters.

#### Membership

The following appointments to membership of the Committee for the year commencing October 1st, 1962, were reported:

Nominated by the Council:

Messrs G. R. Appleyard, F.C.A., L. H. Clark, F.C.A., S. M. Duncan, F.C.A., W. F. Edwards, F.C.A., R. W. Foad, F.C.A., J. W. Margetts, F.C.A., G. P. Morgan-Jones, M.A., F.C.A., J. Perfect, F.C.A., D. W. Robertson, F.C.A., C. Romer-Lee, M.A., F.C.A., J. G. Vaughan, F.C.A., J. A. P. Whinney, A.C.A. Nominated by District Societies' Committees:

Birmingham: Messrs E. J. Newman, M.A., F.C.A., and B. G. Rose, F.C.A.

Bristol: Messrs H. P. Lawrence, F.C.A., and T. B. Pritchard, F.C.A.

East Anglia: Messrs H. Robinson, F.C.A., and G. Wadwell,

Hull: Messrs H. G. Sergeant, F.C.A., and H. C. Shaw, F.C.A. Leeds: Messrs J. T. Barraclough, B.A., F.C.A., and A. G. Martin, F.C.A.

Leicester: Messrs G. L. Aspell, T.D., D.L., F.C.A., and G. Thompson, F.C.A.

Liverpool: Messrs W. Shuttleworth, F.C.A., and C. C. Taylor, F.C.A.

London: Messrs F. W. Allaway, F.C.A., C. J. M. Bennett, B.A., F.C.A., N. Cassleton Elliott, M.A., F.C.A., A. P. Hughes, F.C.A., B. A. Maynard, M.A., F.C.A., and D. C. Urry, F.C.A.

Manchester: Messrs D. G. Bee, F.C.A., and C. Yates Lloyd. F.C.A.

Northern: Messrs H. Kirton, T.D., F.C.A., and S. A. Middleton, F.C.A.

Nottingham: Messrs K. A. Buxton, F.C.A., and J. S. F. Hill, F.C.A. Sheffield: Messrs F. L. Moulding, F.C.A., and L. R. Turner,

F.C.A. South Eastern: Messrs C. R. P. Goodwin, F.C.A., and R. D.

Pearce, F.C.A.

South Wales: Messrs R. P. Brown, F.C.A., and G. M. Metcalf, F.C.A.

Co-opted by the Taxation and Research Committee:

Messrs J. Cartner, F.C.A., K. P. Chapman, D.S.C., F.C.A., P. G. Craven, T.D., F.C.A., S. R. Harding, F.C.A., G. N. Hunter, F.C.A., S. Kitchen, F.C.A., A. H. Proud, F.C.A., and E. C. Sayers, F.C.A.

#### Chairman and Vice-Chairman

Mr S. M. Duncan, F.C.A., and Mr H. C. Shaw, F.C.A., were unanimously appointed Chairman and Vice-Chairman respectively of the Taxation and Research Committee for the year commencing October 1st, 1962.

#### Future Meetings

The next meeting of the Committee was fixed for Tuesday, October 23rd, 1962. A further meeting in 1962 was provisionally fixed for Thursday, December 13th, 1962.

# Notes and Notices

#### PROFESSIONAL NOTICES

MESSRS BUTLER, VINEY & CHILDS, Chartered Accountants, of 60 St Paul's Churchyard, London EC4, announce with regret the death of Mr EDWARD STANLEY THORN, F.C.A., on September 8th, 1962. Mr THORN was admitted to the Institute in 1911 and was senior partner in Messrs Butler, Viney & Childs and Messrs Thomson, Gregory, Thol. & Co until October 31st, 1961, on which date he retired on account of ill health.

Messrs William Chadwick & Co, Noon & Elsworth and C. L. & M. L. Kemp announce that, as from October 1st, 1962, they are amalgamating their practices and that the joint practice will be carried on under the name of Wm Chadwick, Noon, Elsworth & Kemp, at 11–17 Harrington Street, Liverpool 2. The partners of the new firm will be Messrs A. W. Lowe, O.B.E., F.C.A., J.P., William A. Lowe, A.C.A., G. F. Elsworth, F.C.A., A. C. Noon, F.C.A., C. L. Kemp, F.C.A., Martin L. Kemp, A.C.A., and David J. Lowe, A.C.A. Mr J. A. Beggs, F.C.A., and Mr Martin L. Kemp, A.C.A., will continue to practise as Kemp & Beggs at the same address.

Messrs Griffin Stone, Moscrop & Co, Chartered Accountants, of 21 Manchester Square, London W1, announce that Mr James Tumbridge, A.C.A., a senior member of their staff, has been admitted to partnership as from October 1st, 1962. The style of the firm remains unchanged.

MESSRS LEVER BROS & Co, Chartered Accountants, formerly of Candlewick House, Cannon Street, London EC4, announce that as from September 21st, 1962, their offices will be at Snow House, 103/109 Southwark Street, London SE1. Telephone: Waterloo 4026.

Messrs Silver, Altman & Co, Chartered Accants, of Napier House, 24/27 High Holborn, WCI, announce that as from August 17th, 19 have admitted into partnership Mr A. H. A.C.A., who has for a number of years been member of their staff.

Messrs W. E. & H. R. Stacey, Chartered Accordance that the address of their London offi September 24th, 1962, will be 180 Fleet Street, EC4. Telephone: Holborn 3546.

Messrs Thomas & Co announce that on Se 30th, 1962, they will amalgamate with Messrs & Son, Chartered Accountants, of 16 Buck Palace Gardens, Victoria, London SW1. The the new firm will be Mason & Son Thomas & Co), Chartered Accountants of the management of the second second

A.C.A., and W. FLOWER SYMONDS, F.C.A. (consultant). All correspondence should be addressed to the new firm after September 30th, 1962, at 16 Buckingham Palace Gardens, Victoria, London SW1. Telephone: Sloane 5528.

#### **Appointments**

Mr A. B. Irving, A.A.C.C.A., has been appointed financial accountant of Associated Electrical Industries (Manchester) Ltd.

Mr L. J. Matchan, F.A.C.C.A., has been appointed chairman of Harper Engineering and Electronics Ltd and Mr R. S. Cranston, B.A., F.C.A., F.B.I.M., has been co-opted to the board of the company.

Mr Charles Wallis, F.C.A., has been appointed a director of I.B.E. Ltd.

#### **OBITUARY**

### C. G. H. Midgley, M.C., F.C.A.

We have learned with regret of the death on September 2nd, at the age of 67, of Mr Charles George Holmes Midgley, M.C., F.C.A., senior partner in the firm of Clemons, Midgley & Co, Chartered Accountants, of London.

Articled to the late Mr Frank Clemons, F.C.A., Mr Mr by had been a partner in the firm for thirty-seven by the served in the First World War with the Gun Corps in France — where, in 1918, he ed the Military Cross — and was demobilized by Saptain. He was admitted an associate thartered Accountants in England as elected a fellow in 1928.

countants' Golfing only in May of ce-President of ed by all its

#### SW. LONDON DISCUSSION GROUP

The first meeting in the 1962-63 session of the SW. London Chartered Accountants' Discussion Group will be held at the Kingston Hotel, Kingston upon Thames, on Monday, October 1st, at 6.45 p.m. The discussion will be opened by the Group Chairman, Mr B. C. Berkinshaw-Smith, B.A., F.C.A., and the subject will be 'Aspects of the Jenkins Committee Report'. New members will be specially welcome, and no prior notice is required. The honorary secretary of the Group is Mr T. C. Backshell, F.C.A., A.T.I.I., Charter House, Claremont Road, Surbiton.

# UNION OF CHARTERED ACCOUNTANT STUDENTS' SOCIETIES

Members of students' societies are reminded that all students' societies welcome to their meetings members of other societies who are temporarily in their area.

There is also an arrangement for transfer of membership without additional fee for members who permanently change their district. The interchange should be carried out through the secretaries of the societies concerned. Students' societies hold meetings in the following towns:

Ashford (Kent), Bedford, Birmingham, Blackpool, Bournemouth, Bradford, Brighton, Bristol, Cambridge, Canterbury, Cardiff, Carlisle, Chester, Colchester, Coventry, Darlington, Derby, Doncaster, Dorking, Dorchester, Eastbourne, Epsom, Exeter, Faversham, Grimsby,

Guildford, Halifax, Hastings, Hereford, Huddersfield, Hull, Ilford, Ipswich, Kettering, Leeds, Leicester, Lincoln, Liverpool, London, Luton, Maidstone, Manchester, Middlesbrough, Newcastle upon Tyne, Newport (I.W.), Northampton, Norwich, Nottingham, Oxford, Peterborough, Plymouth, Portsmouth, Preston, Reading, Redhill, Salisbury, Scunthorpe, Sheffield, Shrewsbury, Sittingbourne, Southampton, Southend, Stockton-on-Tees, Stoke-on-Trent, Sunderland, Swansea, Taunton, Torquay, Truro, West Hartlepool, Wolverhampton, Worcester, York.

# THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The winter session of The Accountants' Christian Fellowship opens with a reception by the chairman, Mr D. L. Combridge, F.C.A., at 6 p.m. on Wednesday next, September 26th, in the Oak Hall of The Institute of Chartered Accountants in England and Wales, Moorgate Place, London EC2. After the reception and refreshments there will be a short address by the Rev. R. C. Lucas, M.A., Rector of St Helen's Church, Bishopsgate.

The Fellowship's object is to promote fellowship among Christians preparing for and engaged in accountancy, and by so doing to seek to extend the Kingdom of God. Membership is open to all accountants and accountancy students. The honorary general secretary is, Mr R. J. Carter, B.Com., F.C.A., Finsbury Circus House, Blomfield Street, London EC2.



Borough Bank and Barnet's Bank, two local institutions which had previously failed – special experience for the work. Since that date, the liquidation has been steadily, satisfactorily, and successfully proceeded with. The work has necessarily been of a protracted nature, but the shareholders, so far from being prejudiced by the delay, have been demonstrably benefitted.

79, for instance, an offer of £2,000, which clined, was made for assets, which have produced £15,000. Within the last few the last outstanding asset was realised. ing of the shareholders was held a few o, at which the liquidator produced his s, which were duly approved; a resolussed at the same meeting, authorised him oy the books of the bank after the lapse onths. All creditors and depositors have aid in full, and from the subjoined sumf the liquidators' accounts - which may terest to our readers – it will be seen that tion to the paid-up capital of £650,000 nt of £651,174 were made upon £251,981 was

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# The 1962 Congress

HE week which has seen more than 3,300 accountants attending the Eighth International Congress of Accountants in New York is perhaps a fitting time to take stock of the progress of accounting thought in the world, and in particular the contribution towards the development of the profession of public accountancy made by such meetings.

The record of these congresses is in itself impressive, and it is of interest that the present tally includes three meetings (including the first) in America, two in London, two in Amsterdam and one in (pre-war) Berlin.

That the subjects for discussion in New York were worth while cannot be denied; they were all related to the important theme of 'Auditing and financial reporting in the world economy'. Eminent speakers have been heard, official delegations have been in attendance and the views of members of the profession in different lands have stimulated their hearers. In this world of ours which continually grows smaller in terms of travelling time this in itself is a great merit of the function.

What matters set, though, is its contribution towards the work and understrained ing of the average individual member and to the greater complete on of the profession by the public in all lands. This is the underlying purpose of such meetings, and it cannot be been unless members of professional bodies at all levels meet in a spirit of humility ready to listen with an open mind. If they do so they will return to their own shores refreshed and with an enlivened approach to their own problems.

First, therefore, among the lessons to be learned from these congresses is that they form a link between ordinary people in the profession from different countries, each owing an individual allegiance to his own institute, all owing common allegiance to their profession. The greater the numbers of such members who can attend, the more successful will the meetings become. Second, they focus attention within the whole profession upon certain major points selected because of their topical application. Third, they serve as a universal indication to the general public not only of the existence of the profession, but also of its virility and its appreciation of the needs of the complex modern world.

Perhaps it is reasonable also to hope that the congress will do two things for the accountation who has been unable to attend the congress itself; that it will evide a report of its proceedings which he can study with a sum of the congress will be report of its proceedings and we may here make the point that the papers will be report of in these pages) so that he will be enabled to cull for his over a variage what has been said; and

that it will remind him that this world-wide meeting of accountants is but an extension of the meeting together of fellow-professionals which occurs within his own country and his own professional society.

It is therefore the task of every accountant to set aside a moment of his busy day to reflect upon the theme of this week's meetings. We are all, whether we like it or not, part of the world economy and subject to it. None of us has a monopoly of wisdom: no country, no society, can claim for itself the right to dictate universal methods or to rest upon its laurels in a changing world. Auditing methods change, and accounting reports become more complex. A whole new field of management accounting awaits every practising accountant who is willing to accept the challenge – but business does not wait for too long.

Let us apply these thoughts to our individual situations. If accountants are to stimulate themselves to meet the challenges confronting there whole profession in matters such as auditing procedures, specialism, the training of clerks at the form of published and internal accounts and reports, surely they need regular contacts with their colleagues, with the sharing of problems experience so obtained. All professional b would welcome greater interest and servi their members. It is by such interest on the of the member and by such work as the ind into the problems of the small practitioner which was recently undertaken/by The Institute of Chartered Accountants/in England and Wales that the individual member will obtain the true benefits of membership. Societies also give services which are even less well-known, such as assistance to a small practitioner when he is prevented by illness from carrying on his own practice. Many of such benefits are the result of work in the society at the district branch level, and it is here that members can often begin to offer their services to their societies, to the benefit of both.

It is, of course, a long call from the small practitioner's office in the provinces of any country to the busy city office, and the problems and preoccupations of the two of the eem as far apart as their locations. To some may even seem that the 'top people' in the fession of each participating country have me

than these two classes in any one country. To a very large extent, however, this is a matter of the development of a philosophy which reconciles these two extremes – and all nationalities – into the unit, having one aim; to use all the knowledge, experience and varying talents of accountants in the service of the community as a whole.

The profession has a unique service to offer and a high standard of execution. If the 'man in the street' outside the profession finds in the record of this congress something that makes him more aware of the existence of this service and of its world-wide application, there will have been completed a most vital task of public relations. If, at the same time, the 'man in the street' within the profession is stimulated to a reassessment of his own standard of service, and to a realization that this may well be limited by a false parochialism where other accountants, other bodies and other nations are concerned, he will undoubtedly be thereby a better member of his profession.

In his reply to the address of welcome at the present congress, Sir HAROLD HOWITT said:

'Accountancy is a comparatively young profession and these congresses must therefore be invaluable as a means of stimulating thought and helping to bring the level of all professional work up towards the level of the highest, wherever it is to be found. We have also our responsibilities to train and to help the young accountants in the less developed countries of the world. The shrinkage of the world due to travel facilities, the closer integration of financial, industrial and political contacts between nations - of which the latest is the European Common Market - must place heavy responsibilities on the accountancy profession. We must accordingly in our dealings between nations, no less than internally, have an understanding of each other's conceptions in presenting that which in my country we call the "true and fair view".

'A great responsibility rests upon us in this context. Most disputes, even those which lead to wars and rumours of wars, originate out of economic and financial affairs, and ours largely is the responsibility for laying the foundation from which facts may be compiled on a comparable basis, and on which agreement may be reached if the will to do so be there.'

There is every reason to agree that in the world

of 1962 the economic life of many different countries is interdependent. The responsibility of any profession which supplies information which is used as the basis of decisions is therefore

obvious. By meetings such as this congress and others of a more regional character it may well be hoped to strengthen the aims of members: to be true to their ideals of service and fair to all men.

# Public Expenditure

NE of the most interesting sections of the annual Blue book National Income and Expenditure (H.M.S.O., 6s) is the one devoted to public expenditure. Tables 43 and 44 of the current issue deal with this subject. These tables do not, it is true, use the phrase 'public expenditure'; they refer to expenditure by 'combined public authorities'. By this is meant 'net expenditure by the central Government and local authorities on both capital and current account'. Lending and other transactions in financial assets are excluded. We shall not be very expenditure as 'public expenditure'.

For 1951, this expenditure is given as £5,260 million, an amount equal to just over 40 per cera of the gross national product. In 1961, expendit had grown to £9,161 million, a total represents just over 38½ per cent of the national product of £23,700 mill public expenditure as defined a than 37 per cent of gross rise since 1956 seems 1960 when the prop

The largest sig military defen million, or

services, therefore, have generally increased their share of public expenditure since 1951.

Other large items are 'promotion and regulation of industry and trade' with £412 million, compared with £196 million in 1951; agriculture and food, £396 million against £435 million; and housing,  $f_{411}$  million – an increase of  $f_{43}$ million since 1951. Subsidies loom large in these three items. Subsidies to transport absorbed £131 million in 1961 compared with £8 million in 1951 – a reflection, no doubt, of the growing losses on the railways. Agricultural subsidies have far from the truth, therefore, if we regard such y fallen from £375 million in 1951 to £325 million Alast year. Even so, last year's agricultural subsidies were £68 million higher than in 1960. Housing subsidies have steadily risen from  $f_{375}$ million in 1951 to £128 million in 1961. Roads and public lighting absorbed only 2 per cent of etal public expenditure in 1951; last year the ion was just over 3 per cent. Police and how a similar kind of rise from £87 sillion. Finance and tax collection per cent of total expendi-

> blic expenditure in esents go per cent only 10 per sts of

# Short-term Gains - XII

# LOSSES ON SHARES

AST week we discussed paragraph 9 (1) (2) of the Ninth Schedule to the Finance Act, 1962. It restricts the allowance of a Case VII loss on a sale of shares where the shares are bought back within six months (one month if the transaction is through a stock exchange). Such loss can be set off only against a profit on the subsequent resale of the shares, identified in the manner explained. Paragraph 9 (1) (2) is expressed to be subject to paragraph 9 (3). It will be remembered that under the complicated rules in paragraph 8 for identifying shares sold with shares purchased, it is possible in certain circumstances for shares sold at one time to be matched with shares acquired at a later time. Such a matching may produce a Case VII loss. Paragraph 9 (3) directs that paragraph 9 is not to apply to such a loss, nor is the acquisition to be treated as a 're-acquisition' for the purposes of paragraph of The reason for this exemption is that paragraph 9 (3) deals with a bear transaction i.e. a sale made prior to purchase in anticipation of a fall profit on a bear transaction is of cours able: this is precisely the kind which Case VII aims at, alt! on general principles th on an adventure i therefore need no Be that as it m a bear

of explaining these additions to the House of Commons, and it is doubtful if his exposition of paragraph 9 (4) can be improved upon:

'The new sub-paragraph (4) deals with the situation which arises where a person contangoes a sale and under the amendment we have just passed<sup>2</sup> the contango purchased for one acount is matched with the contango sale in the later account. Sub-paragraph (4) in the amendment<sup>3</sup> provides that sub-paragraph (3) is to apply to the contango bargain as if the disposal had preceded the acquisition, that is to say, it ensures that any loss here is outside the ambit of paragraph 9. Sub-paragraph (4) is closely connected with sub-paragraph (3) and one might say that it spells out the intention of the sub-paragraph more precisely.'

So much for the case where a seller has contangoed his sale. Paragraph 9 (5) deals with the converse case of a purchaser contangoing his purchase. It is as follows:

(5) Where -

v) under arrangements designed to postpone the acceptance of shares acquired, a person by a single bargain disposes of shares for transfer vy on a particular date or in a pardand acquires them for transfer attendate or in a later period;

f by that bargain are eviously acquired the earlier date

- (iii) A. contangoes the purchase, i.e. he
  - (a) sells for immediate delivery at £800
  - (b) repurchases for next account at £800.
- (iv) The shares fail to rise and within six months he sells them for £800.

Under paragraph 8 (4) (a) the purchase at (iii) (b) cannot be identified with the sale at (iii) (a): instead it is identified with the purchase at (i). This shows a loss of £200 (ignoring expenses). Since (iii) (b) is a re-acquisition within paragraph 9 (1) there would normally be a ban on the allowance of the loss except against any profit shown by (iv). However, transaction (iv) shows neither profit nor loss, the shares sold being identified with the purchase at (iii) (b) at the same price. In its roundabout way, paragraph 9 (5) removes this ban. It says in effect that one is to assume that the disposal at (iii) (a) preceded the acquisition at (i); with the consequences laid down by paragraph 9 (3).

Instead of merely contangoing the purchase once, the purchaser may contango it in several successive accounts, i.e. in the words of paragraph 9 (6) the acquisition 'is more than once continued' by a contango transaction. Paragrap 9 (5) is to apply mutatis mutandis to each contact Although we have referred to 'shares', paragrap 9 (7) provides that the paragraph is to other assets which are of a nature to be dealt in without identifying the particular assets disposed of or acquired.

If a taxpayer has held shares for the statutory six months, then receives a bonus issue in respect of them and disposes of the bonus shares immediately, he does not have to pay Case VII tax on the proceeds, notwithstanding that there has been an acquisition and a disposal within six months. This is one of the results of the complicated provisions of paragraph 10 of the Ninth Schedule, headed 'Reorganization of share capital'. 'Reorganization' is defined to include

- (i) allotment of shares or debentures in respect of and in proportion to an existing holding of shares (whether in consideration of payment or not and);
- (ii) alteration of the rights of a particular class of shares.

The paragraph also applies to a reduction of a company's share capital. It uses two phrases which it defines as follows:

'original shares' shares hel

shares held before, and concerned in, the reorganization or reduction:

'new holding'

the shares and debentures which (as a result of the reorganization or reduction) represent the original shares.

If any of the original shares survive, they are included in the new holding.

Paragraph 10 (2) provides that (subject to the remainder of the paragraph) a reorganization or reduction shall not be treated as 'involving' any disposal of the original shares or any acquisition of the new holding or any part of it. The new holding is to be treated as the same asset as the original shares, and as having been acquired when the original shares were acquired. If consideration has to be given for the new holding, or part of it (as on a rights issue) it is to be treated as having been given for the original shares. If a new holding is disposed of with a liability attaching to it for such consideration, consideration given for the disposal is to be adjusted accordingly (paragraph 10 (3)). A proviso directs that the surrender or cancellation of shares, or rights, is not to be treated as consideration for the new holding; nor is any application of the company's assets in paying up the new holding. On a reorganization

reduction the holder of the original shares by become entitled to a capital distribution hich is not income in his hands and which at the same time is not of such a nature as to be part of the new holding. It may, for instance, be just cash or shares in some other company. In such a case, paragraph 10 (4) provides that he shall be treated as though the new holding resulted from his having disposed of an interest in the original shares and that the market value of such interest was equal to the value of the capital distribution. Nevertheless, the original shares and the new holding are still to be treated as though they were the same asset, in accordance with paragraph 10 (2).

The taxpayer may dispose of part of the new holding within six months after acquiring the original shares. The total cost of the new holding will be known. It will be necessary to apportion part of that cost to the part of the new holding which is sold. This apportionment has to be made by reference to market value at the date of disposal.

# Estate Duty Reduction

# SECOND OF TWO SPOUSES RULE

by CYRIL A. WILLIAMS, A.C.I.S.

T is of course desirable when advising clients upon estate duty matters to base one's scheme firmly upon one of the exemptions from duty which have been the subject of express legislation, rather than upon some obtuse point of law. A scheme based upon a bright idea may prove costly if, at the end of the day, it is found to be wanting.

An example of such an exemption which was introduced as long ago as 1894 (section 5 (2), Finance Act, 1894)1 and which has not been the subject of any material modification since 19142 (section 14, Finance Act, 1914) is the second of the 'two spouses rule'. Accordingly, it is surprising to find that the case of Re Hall, Holland i v. Attorney-General (20 A.T.C. 281), which made good use of this exemption, has not received greater publicity since receiving the favourable decision of the Court of Appeal just twenty years ago. The purpose of this article is to illustrate how the facts of Re Hall may be applied in a present-day situation, indeed more than this, since the basis of the case may some times provide benefits for a family which can be obtained by any other simple scheme.

#### **Division of Funds**

It is well known that a simple division of funds between husband and wife will go a long way towards improving the financial position of the survivor. For instance, on the death of a man possessing assets to the value of  $f_{200,000}$ , as little as £90,000 will be left for the benefit of his widow if the normal rates of estate duty apply. Moreover, it is likely that the income of the widow will be something in the region of  $f_{.5,000}$  gross per annum less than the amount which her husband had been receiving from the same investments during his lifetime.

Despite the modifications brought into operation by the Finance Act, 1961, as to surtax, the loss of £5,000 per annum gross would surely be

a noticeable reduction, possibly amounting to approximately £1,600 net spending money every year. If, however, the same funds can be reallocated during the lifetime of the husband, so that the husband and the wife each possess an estate worth  $f_{100,000}$ , then, on the death of the husband, the amount of estate duty payable would be (at normal rates) only  $f_{45,000}$  (as against £110,000 previously) and the amount of capital available for the benefit of the widow will thus be improved to £155,000. Although there must, once again, be some loss of income, the short-fall will be noticeably reduced – perhaps famounting to  $f_{12,000}$  gross, say,  $f_{1,000}$  net spending money.

It is not proposed in the course of this article to go into the merits of alternative types of gift by which the division of funds may be achieved, but it must be borne in mind that some types of uft will remain dutiable for up to five years ore these benefits become fully realized. over, the comparative ages and physical of the parties concerned are factors which receive full consideration before attempt-

ing any division of funds.

If the wife should happen to die first, then the amount of duty payable on her death, at normal rates, would also be £45,000 and the amount of capital available for the surviving husband would again be £155,000. The loss of income which will follow will again be to the order of £2,000 gross, or £600 net spending money.

If, however, the husband and wife leave their respective estates to each other outright, the combined estate of £155,000 will again attract duty on the death of the survivor, and at the normal rates of estate duty this would amount to £80,000 - thus whittling down the net residue to a mere £75,000. This disastrous state of affairs may be avoided if the husband and wife, by their respective wills, leave each other life interests in the residue of their free estates in lieu of the absolute interests previously considered. If this is done, then no estate duty will be payable upon the death of the surviving spouse in respect of that part of the combined funds which has previously borne duty. This means that although the duty payable on the first death would be £45,000 and

<sup>&</sup>lt;sup>1</sup> See also section 23 (16). Finance Act, 1894, as to the application of this exemption to Scottish entailed property; also see section 21 (1), Finance Act, 1894, where the prior duty payable is probate duty, inventory duty or account stamp duty.

<sup>&</sup>lt;sup>2</sup> See section 32 (2), Finance Act, 1954, extending the relief.

the residue of funds available for the benefit of the survivor would remain at £155,000, the amount of duty payable on the second death would be restricted to the free estate of £100,000, attracting duty at the normal rate of a further £45,000. These results may conveniently be expressed in tabular form as follows:

#### Table I

IF NOTH	ing is Do	NE	
••	Capital £	Estimated Gross Income £	Estimated Net Income £ 3,8801
Estate of husband Deduct: Estate duty payable on death of hus-	200,000	9,000	3,8801
band at 55 per cent	110,000	*	
Funds available for sur-			
vivor	90,000	4,000	2,2708
Estate duty payable on death of survivor at			
45 per cent	40,500		
Funds passing down the	,		
family	49,500		
Notes: <sup>1</sup> For a married m <sup>2</sup> For a single per		o children.	

#### Table II

EFFE	сто	F EQUAL I	DIVISION Estimated	Estimated
Estate of husband		Capital £,	Gross Income £	Net Income £
Estate of wife	••	100,000		3,8801
Combined total  Deduct: Estate duty first death on £.100		200,000	9,000	3,880
at 45 per cent	• •	45,000		
Funds available for	the			
survivor	••	155,000	7,000	3,2802
Deduct: Estate of thereon on death second spouse at 55	of			
cent limited	···	80,000		
Funds passing down	the			
family	• •	75,000		

Notes: <sup>1</sup> For a married man with no children.
<sup>2</sup> For a single person.

#### Table III

SURVIVOR RESTRIC	TED	TO LIFE IN	TEREST AFTE	DIVISION
			Estimated	Estimated
			Gross	Net
		Capital	Income	Income
		£	, £	£
Estate of husband		100,000	4,500	3,880 <sup>1</sup>
Estate of wife		100,000	4,500 ∫	3,000
_		***************************************		
Combined totals		200,000	9,000	3,880
Carried forward		200,000	9,000	3,880

Brought forward	£ 200,000	9,000 £	£ 3,88o
Deduct: Estate duty on first death on £100,000 at 45 per cent	45,000		
Funds available for survivor	155,000	7,000	3,2802
Deduct: Estate duty on death of second spouse on £100,000 at 45 per			
cent	45,000		
Funds passing down the family	110,000		

Notes: <sup>1</sup> For a married man with no children.
<sup>2</sup> For a single person.

#### Re Hall - the Facts

Turning now to the case of Re Hall, it is interesting to note that considerable extra benefit was squeezed out of the second of the two spouses' exemption by means of a simple deviation from the general practice. The facts of this leading case as reported in 20 A.T.C. 281 were as follows.

The deceased husband was entitled at his death to certain leasehold and freehold property (hereinafter referred to as the Mornington Estate) which he devised to his wife, Mrs H., for life, with a power of appointment by will or deed in favour of children or remoter issue. Mrs. H. cout of her own money paid estate duty on his property amounting to £7,921 2s 6d. During her life, by deeds made in 1928, 1930, and 1936, respectively, she appointed portions of the Mornington Estate (or investments representing a portion of it which had been sold) to her granddaughter absolutely free of all trusts, but subject to her prior life interest. The appointments in 1930 and 1936 were given effect to by conveyances made in 1934 and 1936 respectively. Subsequently the rest of the estate was sold and the proceeds invested. By her will Mrs H. exercised her power of appointment in respect of the remainder of the funds. Mrs H. died on October 14th, 1938.

The Crown claimed estate duty on the sum with which Mrs H. had paid the estate duty on her husband's death, contending that a charge had thereby been created in her favour by virtue of the Finance Act, 1894, section 9 (6). It was contended that it had not been the intention of Mrs H. to create a charge on the property, and that this was shown by her conduct. It was conceded by all parties, however, that if such a charge had arisen it was released in 1920 by the terms of a letter of June 13th, 1920, in which Mrs H. used the words: 'which I paid out of my

own funds as I would not have a charge on the property'.

The Crown further contended that, if the charge had been released, estate duty was payable on the basis that (a) by not reclaiming the sum paid Mrs H. made a personal settlement of this amount to be held on the trusts of her will, or alternatively, (b) the settled property comprised in the husband's estate was increased by the sum paid by the wife in respect of estate duty which amount had not paid estate duty on the death of the husband, or alternatively, (c) that sum was a gift, and estate duty was payable on a proportion

# Decision of the Court of Appeal

under the Finance Act, 1894, section 2 (1) (c), in

that immediate enjoyment was not assumed by the

donee to the exclusion of the donor.

It was held:

(1) On the death of the husband duty was paid on the property unencumbered by any charge whether in favour of the Crown or of the tenant for life; therefore no further duty was payable.

(2) The tenant for life was not a person competent to dispose of the part of the settled property represented by the sum paid for death duties on

the death of the husband.

(3) The payment of such death duties by the tenant for life was a gift, but it was a gift 'to the entire exclusion of the donor, or of any benefit to her by contract or otherwise', despite the fact that the effect of the gift was to avoid her liability to pay interest on the sum charged on the estate for duties. The claim for estate duty on the sum paid by the tenant for life in respect of death duties failed.

The implications of the decision in Re Hall can be put to good use in any straightforward case. Taking again as an example a husband and wife who have divided their capital funds equally so that each has an estate of  $f_{100,000}$ : on the death of the first to die, normally the estate duty would be paid out of the estate of the deceased by realizing part of the assets. If, however, the survivor elects, quite voluntarily, to provide the estate duty out of his or her free estate, this will make no difference to the position which will continue during the life of the surviving spouse, since the estate of the deceased will remain at £100,000 and the estate of the survivor will be reduced from £100,000 to £55,000 giving a combined total of £155,000, the same as before.

On the death of the surviving spouse estate duty will be payable upon the free estate of the survivor – that is to say, on £55,000, the normal

rate for which is 35 per cent, which equals £19,250. Since the whole of the £100,000 remaining in the estate of the first spouse will be protected from further claims for duty by reason of the second of the two spouses rule, combined with the decision in Re Hall, it follows that the aggregate estate available for the benefit of the family will be increased to  $f_{335,750}$  – an increase of  $f_{25,750}$ .

It must be remembered that if real estate is included in the estate of the first to die, then the survivor must take active steps to release the charge for estate duty which would automatically accrue by reason of section 9 (16), Finance Act, 1894. If no realty is included it is useful to note that Hanson's Death Duties, tenth edition, at paragraph 694, states categorically that

'the principle of this decision is considered to be equally applicable to a bequest of personalty by way of settlement although the duty thereon is not a charge on the property'.

If a charge is allowed to appear in favour of the surviving spouse its release will attract duty if

within the statutory period.

It should be noted that in order to succeed in its object, the payment of duty should not be made out of the estate of the original deceased and thereafter reimbursed by the survivor, but instead should be provided by the survivor either direct to the Estate Duty Office or, alternatively, the payment might pass through the deceased's estate. If this happens care should be taken that the funds of the original estate remain intact.

Table IV EFFECT OF PAYMENT BY SURVIVOR OF ESTATE DUTY ON FIRST DEATH PER RE HALL.

DEATH	EK ALL II.	مديد	
·	Capital £	Estimated Gross Income £	Net
Estate of husband Estate of wife	100,000		3,88o¹
Combined totals  Deduct: Estate duty on the first death on £,100,000 at 45 per cent	. ,	9,000	3,880
(provided by survivor)  Funds available for sur-			
vivor		7,000	3,280°
Deduct: Estate duty or death of second spouse on £55,000 at 35 per	3		
cent	19,250	•	
Funds passing down the family	135,750		

Notes: 1 For a married man with no children.

<sup>2</sup> For a single person.

# The Training of Accountants for Industrial Responsibilities – II

by G. W. SEARLE, D.S.C., F.C.A.

## The Individual - the Accountant

WHATEVER the training on the one side, and whatever the scope of the responsibilities on the other, there remains in between that most remarkable and unpredictable subject – the human being. This paper would not be complete without some comments on the personal qualities and requirements of an accountant in industry.

46. The old-fashioned view of the accountant as a book-keeper (with a quill pen to complete the picture) who sits in a secluded room from which he emerges once a year to announce that the books have balanced is, I hope, extinct. In the exaggerated form which I have described I am sure it is extinct but many examples not far removed from this form survive, I have reason to believe, and a combination of accountants who think that way, and managements who accept such a state of affairs do still exist.

47. Many chartered accountants submitting themselves as candidates for employment in industry clearly have no conception of the scope of their future duties. They know that some books have to be kept and they know that tax assessments have to be settled, but this is no advance on the thinking of the man with the quill pen to whom I referred above. These young chartered accountants may have read in books, but have never considered for practical application, the connection between their accounting figures and the day-to-day management of the business.

48. It is no good whatever for an accountant to take the view that if he goes into an industrial concern he can sit back and the organization will tell him what to do. It is no good his complaining that his skills are not used and that he is not given the management responsibilities which he thinks he deserves unless he has set out actively and constructively to show what he can do.

49. Therefore the individual concerned must have those qualities of 'drive and initiative' which are so frequently stated in advertisements that they have tended to become accepted as customary advertisers' jargon, devoid of real significance.

50. There is, of course, a considerable difference in the type and size of industrial or commercial post

The second and concluding part of a lecture presented at the Oxford Summer Course of The Institute of Chartered Accountants in England and Wales on Monday, September 17th, 1962. which the individual may undertake. He may be almost on his own in a small company or one of an accounting team in a very large one. Although, in the second case, he will have colleagues to help him and seniors who are accountants themselves to direct him into the (possibly) right paths, the fact remains that no help, guidance or direction is of much real avail unless the individual himself has the attitude of mind and the ability to do much more than to record historical facts tidily and meticulously.

51. This leads naturally to the requisite that he should be able to work as part of a team. There is no doubt that the pressure on the accountants to play a fuller part in management affairs brings its own critics. We may console ourselves that few, if any, constructive ideas or procedures have been accepted by mankind without bitter opposition from some quarter. Intelligent reporting to management and proposals for changes do not get far without some real or implied criticism. We do not live long in business life without realizing how strong is the feeling of resistance to change and how the launching of a shaft of criticism will-raise the defences against corrective action.

52. If the accountant is prepared to come out of his back room and produce some information designed to help the day-to-day and future management of the concern he is making a start but will not necessarily see a happy ending. He must work with and as part of the management team and, to do so, he must set out to understand the physical processes of the business and the personalities of those in charge. Help from the accountant must not be related exclusively to top-level reporting: it is team work on the horizontal levels which will achieve the best results in the long run, and the better the personal relationships the quicker the results.

53. Business men, and particularly busy business men, are rightly impatient of red-tape and pettifogging detail. They are also impatient of technical procedures and jargon which they do not understand. It is essential for accountants to be able to express themselves clearly and concisely both in writing and orally. To this end they must, in communicating with management, be able to deal with the principles without confusing the recipient with technicalities which only explain the accounting processes by which the answers were obtained. From my own experience there are still too many qualified accountants who cannot state the point at issue clearly, shortly and in terms which a non-accountant

will readily understand. Perhaps junior accountants are accustomed to report almost exclusively to other skilled accountants and this does not give adequate training in the art of reporting to non-accountants.

- 54. As regards professional training and a professional outlook, I have no doubt at all that such a foundation is not only desirable but is expected and welcomed by business managements generally. In our training we learn that we are the fortunate successors to the standards of professional integrity which have been so carefully built up in the past. It is our duty, and we are expected, to maintain these high standards whether we are in industry or in practice.
- 55. When a professional accountant is hired it is, I believe, not only his skills which are sought: he will occupy a position of trust, he will be expected above all to be reliable in his facts, secure in matters of confidence and impartial in his judgment. Professional integrity coupled with human understanding may be the best summary of his most desirable personal attributes.

#### Training

## Articles

56. The Report of the Committee on Education and Training received by the Council of the Institute on April 5th, 1961, considered the education and training of entrants to the profession and I should like to quote one paragraph regarding the various suggestions made as to the improvement of training for industrial responsibilities. This paragraph reads:

'In our view the right solution is to recognize that the newly qualified chartered accountant, like his counterparts in other professions, has many gaps in his practical experience and that, brought up in a professional office, he reflects at admission (as it is intended that he should) the characteristics of a member in practice rather than those of a member in industry.'

- 57. During articles the concentration of the articled clerk is towards his examinations. I suggest that only to a small degree does he consider experience directed towards the improvement of his knowledge and efficiency in his later career if indeed he knows what his later career is to be. As an example of this view I would refer to the reluctance to attend lectures which I have noticed among articled clerks, particularly if those lectures are not precisely directed to examination subjects. The wider experience, the personal contacts, the benefits of discussion and all that could be so helpful, but not immediately useful for examination purposes, are lost in favour of book-study and concentration on the syllabus.
- 58. I also believe it to be true that just as the articled clerk's own mind is filled with examination problems, so the atmosphere in which he works in a professional office is one of drive to complete audits and the pressure (caused, I expect, by impatient clients) of a busy practice. The Report of the Committee on

Education and Training rightly paid tribute to the manner in which practising members recognized a duty to share between them the responsibility to bring up the future membership of the Institute despite the fact that many of those future members would go into industry or elsewhere. It is the fact, I understand, that in many offices articled clerks comprise the majority of the junior staff. They obtain much and varied practical experience in the many tasks they are given and I am sure their principals carry out their side of the bargain by giving them variety and proper training in the exercise of responsibility. I know, however, from the replies I have had to inquiries on this subject, that in anything but a very small audit the articled clerk normally deals with just one part of that audit and often quite a small part. Is there ever time to consider why and how that particular business exists, how it is organized, how it is managed, how the figures the articled clerk produces fit into a bigger picture and what other figures might be produced to help that company? To counsel perfection is to become impracticable but I do suggest that every articled clerk knows his good seniors and would define the good senior as the one who tells him what is going on and why it is going on. I am sure that the training for industrial responsibilities starts by seeing how industrial companies work and it has certainly been represented to me that even on small to medium audits it is difficult for an articled clerk to see the wood for the trees.

- 59. This brings me to the question of secondment of articled clerks for a limited period to business undertakings. This I believe is a little used facility and comes under the category of what is 'permitted' rather than what is 'encouraged'.
- 60. I have personally been concerned with only one such case where an articled clerk has been seconded for a period of six months to the company for which I work. We decided that the following should apply to his training under the secondment:
  - (a) He should be brought into as much contact as possible with practical or industrial operations rather than the administrative side. For this reason we assigned him to work under the chief accountant of one of our refineries rather than in our London head office.
  - (b) That, although his secondment was for the comparatively short period of six months, the experience must be by way of being employed on various jobs in the refinery accounts department and that training by 'looking over other people's shoulders' was (as it usually is) inappropriate.
  - (c) He was therefore employed for a period on each of the following:

Wages payrolls and timekeeping;

Cashier's duties;

Stores stock accounting;

Purchase invoice control and settlement;

Costing: revenue and capital, including budgetary control;

General accounting: financial and general ledgers;

Internal audit;

and, since all procedures are mechanized under an integrated punched card system, each part of the programme led to the acquisition of detailed experience on mechanization.

61. I have subsequently had the opportunity of discussing this secondment with the individual involved, who has now completed his articles and taken his Final examination. I think I am expressing his views on the experience correctly when I say that it was of great help in enabling him to see an industrial unit working and to appreciate on the accounts side, and throughout the refinery, the broad picture of accounting procedures, the flow of accounting information and the working of control systems. On the other hand it was of no apparent help towards the passing of his examinations. It was encouraging to know that he realized there were many things he had not done: for example, the scope of the programme in the six months did enable him to see what figures were produced for the management but in the time available he was not able to see the use which management made of the figures and to judge his work critically in the light of this knowledge. However, six months is a limited time and I feel sure that a sound coverage of the groundwork of the accounting system is the first consideration and one most likely to give the best training at that stage of the articled clerk's career.

62. Of particular interest to me was the fact that he spent much time with engineering students and that they each gained experience by a mutual exchange of views on their respective sides of the industrial machine. I was told that he was at first regarded by them as a rare animal and interest was aroused when the engineering students found that he was as human as themselves and, indeed, had interesting views to communicate regarding the industrial unit to which they were all attached. Thus does management accounting grow and I cannot do better than repeat that without understanding, mutual respect and a feeling of working together management accounting is just another phrase without practical meaning because whatever is produced will not be readily accepted and acted upon by the management team.

63. I hope that, in the course of their work, the audit function is not too narrowly interpreted by articled clerks and that they will be helped to see the broader picture of business operations, and to consider critically the whole accounting system and not just the entries in the books. Having said that, however, I must say that the period of articles is short enough, especially if it is less than five years, to cover the practical side of professional work, and that it would not be right to place on articled clerks

any greater study of industrial requirements than that recommended in the Report of the Committee on Education and Training with respect to the examination syllabus: which reads:

#### Paragraph 24

- '(g) The examination syllabus should be amended (i) to give greater emphasis to the uses of accounts, particularly for the purpose of management;
  - (ii) to include certain elementary aspects of the subjects of economics and statistics (the latter subject primarily in its bearing on the use of accounting for the purpose of management).'

64. I think, for exactly the same reason, that it is right to 'permit' rather than 'encourage' the secondment to industry (paragraph 24 (f) of the Report). Let those so inclined take these opportunities, but let those others who find the going hard enough continue to concentrate their time within the practising side of the profession.

65. Articles being completed and examinations passed may the newly-qualified accountant realize that he has only entered on the threshold of his career and if he is to go into industry he must then apply himself to becoming fitted for the job which is the target of his ambition.

# After qualifying

66. Having passed their examinations it is now accepted that the practical experience of chartered accountants will vary to a considerable degree. I would like to refer to C. Northcote Parkinson's book called Parkinson's Law or the Pursuit of Progress which is, no doubt, as well known to you as it is to many business men who have wondered how far the humorously expressed criticisms apply to themselves. In the chapter on 'Pension Point' is a reference to various stages in a career which starts at the Age of Qualification, which is designated Q.; Parkinson says:

'Q. is to be understood as a technical term. It does not mean that a man at Q. knows anything of the business he will have to transact. Architects, for example, pass some sort of examination but are seldom found to know anything useful at that point (or indeed any other point) in their career.'

67. I am thankful that, when opening his dictionary to single out a profession for the purpose of embellishing his remarks with some pointed levity, Professor Parkinson did not open the page containing the word 'accountant' instead of 'architect'.

68. It has been said that business concerns have taken on newly-qualified accountants to head their accounts staff and have been distressed at their lack of practical experience in organization, presentation of facts, staff control, accounting machine programming and installation. This is said to reflect adversely on the designation of a chartered accountant who is presumed to be aware of all these things

in his training. But nobody thinks any less of the medical profession because a newly-qualified doctor has not the experience of an older practitioner. Experience must be acquired the hard way and five years (and certainly three) are not sufficient to make a man proficient in every aspect of industrial requirements.

69. The important thing is that the young man must realize his own limitations.

70. In the immediate post-qualification period further training may not appeal to him. I have no doubt that if he stays with a professional firm they will encourage him in the acquisition of greater experience, although, naturally enough, that will be directed towards the professional experience required as one of their senior assistants. If he intends to look to industry for employment then he must plan his experience himself and surely he is by then old enough to do so.

71. In my opinion the man who seeks industrial responsibility would do well to spend a few more years in a practising office after obtaining his qualification. Professional responsibilities will then be undertaken which make those of a 'fifth year man' seem small. The broader aspects of a client's business must then appear even if they never did before. One should begin to find one's feet and gain a confidence based on experience rather than textbooks.

72. All this is in the hands of the individual who is in a world where textbooks abound and more lectures are provided than he can attend. What he makes of his first few years as a qualified accountant is largely in his own hands and this applies both to further theoretical studies and, particularly, to practical experience.

## In Industry

73. Those accountants who go to small industrial concerns may still have to make their own way. Training comes from self-discipline. They must learn the business and study the organization, apply their own experience to the problems of mastering their accounting responsibilities, establishing suitable controls – in short, laying a foundation of good basic accounting practice. Having established a good foundation, for which professional training should have equipped him adequately, then comes the time to set about meeting the requirements of the management.

74. It is no use expecting that the management will necessarily know what their requirements are, and so the accountant must himself consider the worth and the form of forecasting and budgeting, costing in its various forms, financial and operating statements and any similar products from his accounting department which may assist the management. This work may have to be based on theoretical knowledge but practical experience has to start some time. The fact that it is a small business and that he is the only

qualified accountant may mean that he grows up with the business and in a small concern, provided one does not allow oneself to be overwhelmed with detail, it is at least easier to see the whole picture. The process of trial and error in the implementation of new ideas is not so lengthy nor so costly as it is in a bigger unit.

75. A young qualified man should be quite well equipped to make a good start in a small industrial concern. If he is prepared to learn there is no reason why he should not make real progress in that assignment, with the help not only of the experience he will acquire day by day but also of the immense amount of good advice available to those really seeking knowledge and new ideas.

76. Accountants who go into a larger concern must first and foremost impress on themselves that they must learn how the business operates industrially, commercially and administratively. It may later become part of their duties to criticize the way the company works and to produce facts and figures to show how it could work more efficiently, but they will not endear themselves to their colleagues, nor enhance their reputation, if they criticize or attempt to advise without full knowledge of the subject. In a large concern it takes a long time to appreciate the operations as a whole and they will not find themselves entrusted with major responsibilities until they have shown a proper understanding of the business. I have already referred to the frequent desire of young qualified accountants to avoid contact with the basic accounting records and to advance immediately into work of direct managerial assistance. They may even be encouraged to do so by a large concern which wishes to fill urgently a vacant post of some semispecialized nature, but I am in no doubt that a spell in the section devoted to basic accounting or a spell with the internal audit should contribute to a more rapid understanding of the business and its organiza-

77. Keeping the accounts has been referred to as sitting at the cross-roads of the business; there are few quicker ways of getting to know what is going on if one keeps one's eyes and ears open. But knowing what is going on is still not enough: if you are going to work as a team you must know how the other man works and what his aims and problems are, and unless you can know enough to work as a team you cannot give a proper accounting service related to 'what should be going on' and 'what will be going on', in addition to recording the past and (I hope) the present.

78. In my experience it has been found most rewarding to run, over a period, a series of talks given by senior men in each department who speak on their work and responsibilities and encourage subsequent questions and discussion. Another excellent training scheme is a residential course of, say, two or three weeks' duration, held for senior men drawn from different functional departments. At these courses

talks on company policy and operations are given and those attending are encouraged to question and discuss these matters with the speakers. Discussions can be aided by asking the course-members to find solutions to operational problems which have been written up as 'case studies' for that purpose. All this helps to give the background and also produces lines of thought from which constructive ideas may emerge. It is, of course, a procedure made necessary by the large scale of operations, but I particularly welcome it as an opportunity for mixing the accountants with their colleagues in the operating departments.

79. Just as changing one's employment from one small industrial company to another gives one added experience so changes of appointment within a large concern achieve the same thing. But this takes time and the training programmes of a large industrial concern which I have mentioned above are really designed to speed up something which would otherwise be a much more lengthy process: namely, the emergence of a trained accountant with an all-round understanding of the business and with knowledge of both the administrative processes and of the individual personalities with whom he has to work or correspond.

80. I must not forget to mention the smaller but important things such as the ability to present figures clearly and to write good reports. Criticism and advice from seniors is important in this and, if one leaves a practising office without having attained facility in these things, one will soon have one's errors pointed out and especially so in the larger industrial concern.

81. In the small business, therefore, the accountant makes his own way and learns by experience and by his own efforts and research. He meets a personal challenge to succeed almost on his own and he may have to set his own standards to measure his own success.

82. In the larger concerns he has the challenge of size and the complications of a large organization in addition to the responsibility of a particular assignment. While the conscientious man will always seek knowledge on his own account the larger organizations normally expect to pay some attention to helping the young employee to gain the experience he needs for his greater efficiency.

#### Conclusion

83. I am conscious that no revolutionary proposals have been made in this paper. I have a feeling that the reader will assume, therefore, a large degree of satisfaction and complacency with the present state of training. On the contrary, I must remark that in my own experience we do not find a large number of young qualified accountants of suitable experience and quality ready to join an industrial organization.

84. You may be interested to know that in London in 1961 we interviewed ninety-seven qualified men who had applied for accounting posts. To nineteen of these we made offers and in fourteen cases our

offers were accepted. It would be wrong to suppose that all seventy-eight of the candidates to whom we did not make offers failed to match our requirements; in some cases, no doubt, we did not match their requirements and there were a variety of other reasons. Nevertheless, it is unsatisfactory to have to record that there were many who were thought, on interview, to be lacking in some respect. We do not expect candidates to be completely trained for our requirements and it would be an unusual case if a man were found to have exactly the experience we hoped to obtain: what we do look for, however, is the inquiring mind and a mental attitude which we judge will quickly absorb the requirements of a new job and merge them with a satisfactory level of present training.

85. It is of interest to us, therefore, to find out how narrowly or widely he has viewed his past work, how much he thinks he knows or will admit he has to learn and whether he has that type of personality which will enable him to work as one of a team.

86. I would ask articled clerks to remember that they have more to do than pass examinations and they should make the most of the excellent opportunities they have for observing how businesses are run and how the accounting procedures are, or perhaps fail to be, designed to meet the requirements of the management.

87. I would ask principals to encourage articled clerks to consider the aims as well as the procedures of accounting in commerce or industry. I say this not solely for the purpose of obtaining better candidates for industrial appointments but because I suggest that the profession as a whole would be advised to pay increasing attention to the needs of management in its search for operating efficiency.

88. Within industry the senior accountants must meet their responsibilities for training their younger assistants. Just as practising members recognize their responsibility for bringing up the future membership of the profession so should accountants in industry recognize their duty to further the education of their younger colleagues, both qualified and unqualified, in their accounting organizations.

89. The reason why this address is little more than a review of the subject is because I feel that the facilities for training are all there: what is needed is some stimulation for their greater use and unceasing efforts to ensure that the profession continues to attract individuals of high quality. Business life, whether in practice or in industry, cannot be set out like an examination syllabus and it is necessary for each one of us to realize the challenge and opportunities which we face. Sometimes we may be guided but more frequently it is in our own hands and is a reflection of our personal qualities to assess the requirements, to realize our limitations and to seize our own opportunities for further education.

(Concluded.)

# Machines and Men

# FIFTIETH NATIONAL BUSINESS EFFICIENCY EXHIBITION

In a world where speed and space have become dominant factors, machines necessarily play a leading part and today there is no department of life unaffected by the products of the ingenuity and inventiveness of the machine-men. In the office a revolution that began with the appearance of the first typewriter proceeds faster and further each year and while the difficulties of any real communication between man and man are the constant theme of novelists, playwrights and poets, in the severely practical sphere of industry and commerce, machine language has become a commonplace, keeping management and employees, factory and office, in closer touch than they have ever been before. The tasks of the white collar worker are constantly being lightened and his (or her) routine changed by

The tasks of the white collar worker are constantly new mechanical aids whereby speed and accuracy can be guaranteed and fatigue largely eliminated. Since scarcity of labour rather than redundancy is the problem in most offices, the one-time prejudice against mechanization has largely disappeared and it is normally welcomed when it is accepted that it does away with dull repetitive work and gives the satisfaction of knowing that a job has been well done.

## Which Machine?

But machines which can perform so many varied functions cannot of necessity be cheap and it is to the professional accountant and cost accountant that the business man turns for advice in selecting the equipment most suitable and economical for his particular purpose. The installation of a sing machine requires the consideration of many factors, human, mechanical and financial and one of the great attractions of the Fiftieth National Business Efficiency Exhibition is the opportunity it gives to see the latest developments, to compare the wide range of products and to discuss problems with experts.

## **Largest Exhibition Yet**

Over 160 firms are participating this year in the Exhibition which is to be opened next week by Alderman Sir Frederick Hoare, the Lord Mayor of London. The exhibits cover every type of machine from large electronic computers suitable for a bank to a simple duplicator for use in the small office. Demonstrations will be given of many of the machines. We refer on other pages to some of the latest comers to this field, but it is not possible, of course, for reasons of space, to do more than mention a very few of the multifarious machines on view. Improved designs in office furniture that make for a more comfortable working life can also be inspected.

# Financial Computing Services

A NEW FIELD FOR E.D.P.

CONTRIBUTED

VER the past decade, the electronic computer has successfully demonstrated its ability to perform all kinds of routine office work and to provide what is popularly described as 'management information'. Now it has begun to move, with equally promising results, into the more specialized fields of accountancy and actuarial work. This, in turn, has begun to create an entirely new class of computer users – a class which already includes stockbrokers, insurance brokers, investment analysts, consulting actuaries, practising accountants, unit trust managers and merchant bankers.

In much of the work for which these specialists are responsible, a large number of arithmetical and logical operations has to be performed repeatedly on quantities of basic data which, although sometimes comparatively small, have none the less to be sifted from vast quantities of constantly changing data. Clearly, there are plenty of opportunities to exploit the computer's ability to 'memorize' complicated sets of instructions, exercise powers of discretion, create and maintain its own files of basic data, and produce printed reports and schedules in pre-selected formats.

At the simplest level, electronic data processing is used solely to eliminate repetitive manual tasks. But although this enables the user to achieve the

same results as before with less effort and expense, it is only the starting-point for more rewarding operations. The special value of electronic data processing lies in its ability to achieve much better results than before, and to uncover useful information which, for economic reasons, would otherwise have remained hidden. Because of the speed and versatility of the modern computer, it is now possible to analyse more widely and deeply; to produce more accurate and timely reports; and to give professional men even better opportunities to exercise the real 'arts' of their professions.

The number of professional and financial businesses which can afford to install their own E.D.P. equipment is, of course, limited—indeed, it was only about two months ago that a magnetic file computer was delivered, for the first time in Britain, to a firm of stockbrokers. For this reason, the new class of user owes its existence to recent advances in the field of computer service work.

# 'Off the Peg' E.D.P. System

The idea of performing such work on a service basis is not entirely new. Actuaries, insurance companies and stockbrokers were among the first clients of the electronic computing centres which began to emerge, somewhat hesitantly during the middle 'fifties, and since then a variety of jobs has been undertaken with reasonable, and at times outstanding, success.

This pioneering work has served two purposes. In the first place, the results of the more successful experiments have drawn attention to the opportunities opened up by electronic data processing. In the second place, the experience gained has enabled certain computing centres to develop services which, although finally tailored to meet individual needs, are based on an 'off the peg' E.D.P. system. Thus, the new opportunities have been brought within reach of businesses which have neither the resources nor the inclination to act as pioneers themselves.

Much of the experimental work has been concerned with arranging a satisfactory marriage between the expertise of computer programmers and that of the centres' new clients. Not unexpectedly, this has proved more difficult than in the case of general commercial work. Merely to 'automate' established methods is relatively simple; the real problem is in employing the full capabilities of the computer to set up new methods which, because of the limitations of conventional processing equipment, have not been seriously considered in the past.

Some clients and prospective clients have tried to bridge this gap by sending their own employees on computer courses and even programming courses. But most of them have taken the view that the initiative should come from the other side.

This has, in fact, happened. Whereas the early computing centres were essentially Jacks of all trades, it is now recognized that a considerable degree of specialization is called for.

The trend towards specialization was brought right to the surface last year when one of the main computing firms set up a centre in the City of London to deal exclusively with the work of stockbrokers and other City business houses. This centre is run as a 'stock exchange' service which uses a computer to obtain the best possible results for its clients, and not merely as a computing service which undertakes 'stock exchange' jobs. All members of its staff, from punch operators to programmers and systems analysts, are familiar with the specialized types of information passing through their hands; many of them have been recruited from merchant banks and stockbrokers' offices. There is also a data research section, the prime responsibility of which is to maintain a main data file of share facts and prices covering seventy different currencies. This information is permanently stored in the computer's memory and is thus immediately available to elients.

# **Investment Portfolios Analysed**

One of the first services established by the Centre enables investment analysts, unit trusts managers, company accountants and others to obtain regular analyses and valuations of investment portfolios. Based on the results of over three years' work for a merchant bank and a firm of chartered accountants, it is typical of the wholly practical facilities which are now being made available in this field.

Since the security data is already stored in the computer's memory, the client has only to supply details of the individual holdings in the portfolios for which he is responsible. This can be done in several different ways.

In the more sophisticated systems, the Centre assumes full responsibility for maintaining the portfolios, and the analysis and valuation reports are produced at the required times without effort on the client's part. Changes in holdings are notified to the Centre in the form of contract note copies, or even in the form of punched paper tape automatically created by the accounting machines on which the contract notes are prepared. The

second method has particular advantages, because it enables the computer operation to be fully integrated with the client's own record keeping. The tape, created as a wholly automatic byproduct of routine work, is verified by normal accounting checks and can therefore be fed straight to the computer without further attention from the client or from the staff of the Centre.

Where the volume of work does not justify the use of this method—or where an operation is started on a deliberately restricted scale—the client simply provides a written or typed list of the holdings in each portfolio. Alternatively, the changes in holdings can be marked on copies of the analysis and valuation sheets previously

prepared by the computer.

This service is now being used by a steadily increasing number of merchant banks and other business houses. Because it has been fitted into a standard framework, each client has to bear only a very small proportion of developing and running the system and maintaining the main data file. The complete system involves nine computer runs, but only in the last of these is it necessary for the programme to cater for individual requirements.

At the same time, the framework of the system is sufficiently flexible to accommodate many variations. Income and dividend figures can be calculated in any way that suits the client's needs; normally, they show the anticipated income based on information extracted from the latest reports of the companies concerned, but there is no difficulty in including such additional items as net yields and yield or earnings ratios. Similarly a variety of comparatives can be computed from the security data and from averages contained in the portfolio itself. The Centre is, in fact, planning to establish a 3,000-share index for the computation of yield or earnings ratios.

# **Preparation of Reports**

The analysis and valuation reports are prepared – again, in a wide choice of formats – by a specially developed system of computer-controlled lithographic printing (a section of a printed portfolio schedule is illustrated in the adjoining column). As the calculations are done, the results are printed straight on to lithographic plates, from which the required number of copies is immediately produced on equipment situated within a short distance of the computer. This system reduces printing costs, eliminates the delays which are bound to occur when reports are printed by letterpress at a different location, and

achieves a quality of reproduction which is much better than that normally associated with computer-controlled printers, and even better than some letterpress work.

The personal touch is not lost, since the computer can be programmed to insert such marginal notes as 'Not to be sold without reference to I.B.'.

For security reasons, the clients and individual portfolios are identified only by code numbers. As a further safeguard, visitors to the Centre are not allowed to approach the machines, although they can observe the work from behind a glass security panel.

# Calculation of Gilt-edged Yield Statistics

Another job which can now be done more efficiently by computer is the daily calculation of gilt-edged yield statistics. The first system of this type was put into operation about three months ago by a well-known firm of stockbrokers, and there is no doubt that other firms are preparing to follow their lead.

Every day the prices of British Government securities are punched into paper tape and combined with basic data stored in the computer's memory. The machine then calculates such things as accrued interest, flat-yield, redemption yield and grossed-up net yield, and also works out the effects of future fluctuations in price. Finally, 400 copies of the schedules are prepared by computer-controlled lithographic printing in time for them to be sent to the stockbroking firm's own clients in the evening post.

Because of the speed of the combined processing and printing operation, the brokers are able to provide up-to-the-minute information without effort on their part, and the investment analysts who previously did the calculations manually have been freed for other work.

These are only two examples of current developments in this new field of electronic data processing. Many other types of financial work are now being handled by computing centres, including the calculation of industrial share price indices (with results that are already familiar to the readers of certain daily newspapers), the preparation of dividends from share transfer data, the control of unit trust registers, and the preparation of certificates for block offers by unit trusts.

Now that a considerable amount of working experience has been gained, the pace of research into more advanced applications is accelerating rapidly. Some business houses are already cooperating with the staff of computing centres,

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Typical portfolio schedule produced by the National Cash Register Company's Financial Computing Centre in the City of London, and printed by computer-controlled lithography. Although this portfolio maintenance, valuation and analysis service is based on a set of standard programmes—and draws on data permanently stored in the computer's memory—the results can be set out in any form that suits the client. In particular, the client can specify the formulae used to forecast income, yield and dividend figures.

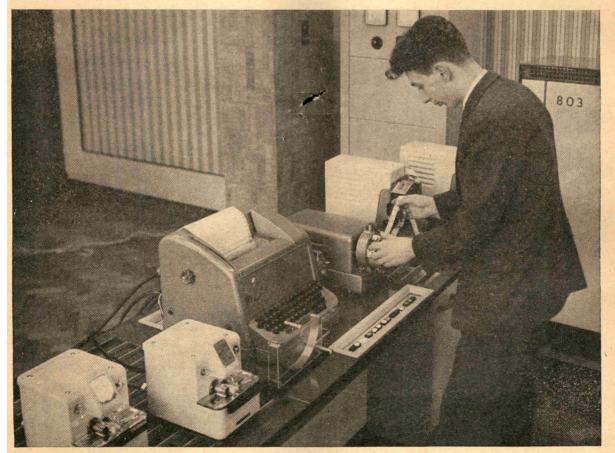
often under conditions of top secrecy, in the development of entirely new systems which will put to good use share market data gathered from all parts of the world. This work will eventually benefit a large number of firms – just as the early experiments in portfolio analysis and valuation have led to the setting-up of the standard services available today.

# Close Collaboration Required

It would be foolish, however, to paint too rosy a picture at this stage. The electronic computer is not a magic box from which all sorts of benefit can be extracted at the press of a button. Certain programming operations present serious problems; the first results are sometimes disappointing. Altogether, the development of further applications will call for very close collaboration between the computing centres and their clients – and for considerable faith and patience on the part of the latter.

Yet there is ample evidence that the pioneering work will be well rewarded. Its value (as well as its pains) were recently put into perspective by one of the partners in a small firm of chartered accountants which has made good use of electronic data processing in the field of trust accounting. Confessing that at times 'we regretted having ever started upon the operation', he explained that this was largely due to the fact that 'we were experimenting with an entirely new system'. Subsequent results had demonstrated that the cost of programming the work and running the computer was not high, and that the production of investment statements by computer was considerably cheaper than by conventional methods. His final verdict on the experiment was that his firm now look back at their manual investment records as relics of a former age.

Before long, the same verdict may be applied to many of the time-honoured methods that are now practised in City business houses.



At the N.C.R. Computing Centre. An analysed valued portfolio of an investment trust comes out of the computer in the form of punched paper tape.

# Auditing Magnetic Tape Systems - I

# RELIABILITY OF THE SYSTEM

by H. LA COSTA, F.C.A.

The special problems which face the auditor concerned with an electronic data processing system incorporating facilities for the use of magnetic tape are analysed and the reasons for the increasing application of magnetic tape are discussed. The first part of this article deals with systems reliability. The second part will examine general operating problems.

THE principles involved in auditing accounts processed on an electronic data processing system differ less than might be expected from those applicable to a manual system. Details of the audit programme are, of course, widely different.

Outside the computer itself the main factor affecting the auditor is the increasing tendency to integrate all phases of data processing. As discussed later, this involves special considerations which are not applicable even to the most sophisticated punched-card installation.

As far as the physical equipment itself is concerned - the so-called 'hardware' - the major difference to the auditor lies in the form in which based on the use of punched tape and punched cards. The increasing application of magnetic tape introduces a new medium which cannot be read directly by the auditor. This change in legibility poses practical problems, which need a basic grasp of the method of operation of magnetic tape equipment for successful solution. Looked at in another way, the same factors provide the potential defaulter with similar problems.

At present, electronic data processing systems with facilities for magnetic tape are relatively rare, particularly among those installed by firms of small to medium size, but the position is rapidly changing. Because of the consistent decrease in the costs of operating magnetic tape systems, magnetic tape facilities are now increasingly being specified as a necessary part of newly-installed electronic data processing systems. The greater availability of magnetic tape systems at service bureaux at economic rates has also encouraged more widespread application. This trend is likely to gain increasing momentum in the near future as the competitive qualities of this medium in terms of reduced operating cost, ease of handling, reliability and speed of processing continue to grow.

# **Operating Costs**

It is difficult to be precise on comparative operating costs, since much depends on figures which vary from manufacturer to manufacturer and even from application to application. Certain factors are, however, so much in favour of magnetic tape that even the most conservative estimate must show its advantages for applications involving these factors. It is perhaps not generally realized that, as compared with magnetic tape, the cost of storing an equivalent amount of data is six times greater on punched cards, from twenty to sixty times greater on random-access devices of the magnetic disc type, about 30,000 times greater on magnetic drums and from data are stored. Early computer installations were 150,000 to 600,000 times greater on magneticcore storage. This cost comparison is underlined by the fact that magnetic tape has a virtually unlimited life, whereas punched cards sometimes do not survive a single input to the computer.

Magnetic tape is also easier to handle for two reasons - compactness and procedural versatility. Firstly, a typical reel of magnetic tape, weighing little more than 3 lbs, can store some fifteen million characters; to match this capacity would require a mass of punched cards weighing over a quarter of a ton and occupying several hundred times the volume of the reel of tape. Secondly, magnetic tape can, by automatic processing, be read forwards or backwards, rewound or back-spaced, and used alternatively for writing and reading. By contrast, once a deck of punched cards has been loaded, it can only be read forwards unless the operator intervenes manually. This flexibility of magnetic tape adds substantially to the power and freedom of system design when procedures for dumping existing data and restoring the programme are required. The speed and ease of sorting traditionally claimed for punched cards and magnetic drums can moreover be substantially improved by the use of magnetic tape facilities.

# Reliability

Reliability is one of the most important qualities for the accountant. The reliability of magnetic tape has been the subject of a test recently undertaken by a computer manufacturer. The full test lasted for fifty hours, during which no maintenance of any kind was undertaken. In this time, 9,000 million bits (BInary digiTS) of data were read with an error rate of only one bit per 1,800 million, or per ten hours of running time. The total error of only five bits were entirely due to transients in the power system, which has since been redesigned to eliminate this source of possible error disclosed by this extended trial. The word 'possible' is used since, in practice, all readings would have been re-read and corrected by the Orthotronic system of error correction used by this manufacturer.

Physical examination of the magnetic tape after 100,000 passes disclosed slight burnishing. The actual wear was, however, so slight that the tape was still in good operating condition at the end

of this gruelling test.

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Speed is another obvious advantage of magnetic tape. Speeds for reading and writing on present equipment commercially available range from 10,000 up to 200,000 decimal digits per second. Even higher speeds should soon be available, if called for by increases in the speed of computation by the central processor.

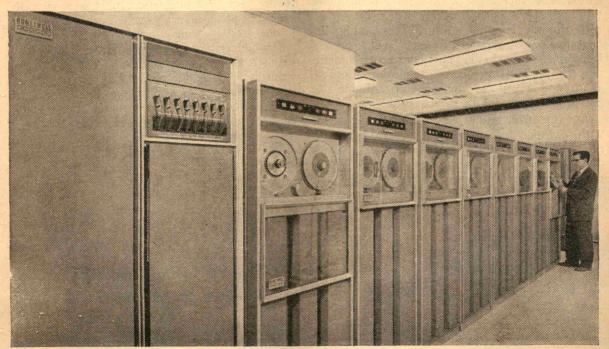
# Effect on Accountancy

With the increasing competitive claims of magnetic tape and the resulting advances in its use, the effects of using this medium upon the practice of auditing must be a matter of concern to the whole of the accountancy profession. What, then, are the difficulties caused and the opportunities created by the application of this medium?

At the outset, it must be stressed that the ability of electronic data processing equipment to handle data on a fully integrated basis leads inevitably to the intermingling of different activities. Whereas the auditor could, in the past, rely on separate functions to be handled separately, this is no longer true.

Any analysis of the effect on the accountant of using magnetic tape must therefore extend far beyond a mere consideration of tape handling.

Unquestionably, the greatest opportunity for fraud and error lies in the creation of source data in readiness for transcription on to magnetic tape. In this field, there is no realistic alternative to good auditing practice. Machine checks and factors of reliability can never replace a soundly designed auditing programme backed by a good system of internal controls. However, the relatively high cost of creating source data, coupled with the desire of computer manufacturers to provide equipment to 'close the loop of mechanization', has resulted in a concentration of effort



Because of decreasing operating costs, magnetic tape systems are increasingly being specified for new installations.

on this problem which should be of practical benefit to the auditor concerned with strengthen-

ing internal control.

Falsification or suppression of information is, for example, becoming more and more dependent on the availability of specialized and costly equipment, which is unlikely to be at the unsupervised disposal of potentially fraudulent personnel. By the same token, less and less original recording is being undertaken by ordinary clerks, thereby reducing markedly the opportunities for error. Cheques are increasingly being prepared by high-speed printers forming part of the electronic data processing installation. Special characters on these printers make the document suitable for direct transcription by character-recognition equipment to magnetic tape and for re-entry from the tape to the computer system. Virtually no intervention by human operators is required at any stage of cheque preparation or checking. Any auditor familiar with, say, I.M.R. 12-F Selfchek fount will concede the difficulty (if not impossibility) of altering the characters while still retaining a readable document. The auditor who finds this system in use may safely re-apportion the weight of auditing effort so that increasing attention is devoted to those areas which are relatively less well protected.

# **Error-correcting Codes**

This built-in interlocking protection can be further reinforced by incorporating an errorcorrecting code within the information on the document itself. The best error-correcting codes cater not only for error-detection but also for full error correction. Some codes are naturally more powerful than others and the auditor will wish to acquaint himself with the power of the particular system in use. An example of facilities available with a good code is given by the Honeywell system of Orthotronic control mentioned earlier. With this system, it is not necessary to revert to an earlier point in the programme or even to have access to the correct information. Mis-read information can be correctly regenerated by analysis of the additional check digits transmitted with the original information. The arithmetical processes involved in the calculation of these errorcorrecting check digits are an integral part of the computer programme and are not directed from outside. While it is not impossible to find out the details of the error-correcting system, the investigation involved is beyond the ability of personnel without special training in this field. Even should the method be detected, physical



To assist the auditor, information stored on magnetic tape can be freely duplicated at low cost compared with other systems.

alteration of the basic information requires a further physical change in the error-correction check digits. Since these error-correction check digits may be some distance from the basic information, the need for such a change renders the task of the prospective defrauder doubly difficult.

The incorporation of an error-correcting code offers a further advantage from the viewpoint of are auditor. Often the use of this code, with its content of redundant information, substantially increases the ability of the optical scanner to accept mis-scanned or defaced information and to regenerate lost or damaged data without interruption or rejection of the document. Clearly, the auditor must confirm for himself the efficiency of the regeneration process if he is to be satisfied about the correctness of the information accepted by the electronic data processing installation. This confirmation can be effected by careful study of the logic of the system and by further testing of results by sampling and statistical analysis. A user of electronic data processing has stated that document rejection rates of between five and 10 per cent commonly accepted by industry in scanning operations has been reduced to 0.2 per cent by using the error-correction process discussed above. This reduction is naturally of considerable benefit both to the auditor and to the systems designer. The error-correction process should, however, be clearly understood and carefully evaluated in relation to a particular application, so that demands on it are not inadvertently pushed beyond practical limits.

# Service to Clients

## CONTRIBUTED

URING the First World War, interest in cost accounting was aroused and this continued to expand very slowly between the two wars and spread into budgetary control and other forms of management accounting. The further impetus to this interest provided during the 1939–45 war has been continued since and has resulted in tremendous strides in the development of new techniques. Accountants both in practice and in industry, and indeed management in general, have become increasingly aware of the science of management and of the advantages to be gained by the use of accountancy services within industry and commerce and from the accountancy practice.

Development along these lines as management consultants is a natural extension of the accountant's profession and it is only the tardiness of practitioners which has enabled other organizations, perhaps less qualified, to establish what they imagine to be a new profession. Surely the client should turn to his own accountant for such advice and the accountant should be equipped to provide it or to advise where it can be obtained? As well as the traditional office and accountancy services, such as budgetary control, cash budgeting, costing (in its many forms), stock control and production control, management accounting covers management problems of a general nature, such as functional organization.

# Providing a Book-keeping Service

One service which the practising accountant could and should be in a position to give is the provision of book-keeping services. It is true that many accountants, in dealing with clients whose records are incomplete, carry out a complete office service in producing accounts from original documents. It is true also that in many cases the accountant starts from an intermediate stage (very often a trial balance) and carries out the rest of the work of producing the accounts. But there is an extension to this service.

For the small and simple business (e.g. a single retail shop) which is under the personal control of the proprietor, no elaborate accounting system is necessary and a simple set of records designed by the accountant or even a standard ruled account book is sufficient and will provide the necessary information from which the accountant

can prepare financial accounts and tax computations and, at the same time, will produce current information to enable the proprietor to assess progress being made.

At the other end of the scale, the large concern can afford to employ specialized staff in all the appropriate functions including one or more qualified and experienced accountants, together with the appropriate clerical staff and the necessary mechanical assistance.

In between these two are the medium-sized concerns who, for too long, have been unable to benefit from the recent great strides in techniques and mechanical book-keeping. These represent a very high proportion of the total number of businesses and although they normally have a clerical organization of some sort, for reasons of capital and labour costs this is all too often quite inadequate or disproportionately expensive.

# Some Advantages

In many such cases, not only does the book-keeping side fail to provide a proper service to help general management to carry out its function, but it very often hinders general management and, in fact, becomes a 'nuisance department'. The client often finds that he is wasting time in the accounting department or elsewhere because of it – time which could be better spent in dealing with sales and technical problems. The practising accountant can well supply machine time and keep these records for his clients.

The more enlightened manager of such a company is already aware of the fact that to be free of the responsibility of the book-keeping department is to his advantage and the practising accountant, having set up the proper organization to deal with the accounting routine, can be supplying a service which is welcomed whole-heartedly.

The advantages of the service include:

- (a) freedom from concern in relation to routine problems
- (b) freedom to concentrate on sales and technical problems
- (c) reduction in overheads by freeing space used for accounts office
- (d) benefits arising from employment of better qualified and/or more experienced staff whose variety of experience is a continuing benefit
- (e) more economic employment of clerical labour (f) advantages of use of machines where appropriate.

The provision of the more expensive equipment such as computers and punched-card installations nay be out of reach of the practising accountant. If this is so he can make use of the bureaux established in most cities. This gives advantages over the client going direct to the bureaux. In he first place the accountant can provide a complete service based on a comprehensive and ntimate understanding of the client's business and his requirements. In the second place, he can be flexible both with regard to timing of operaions and to costs. In the third place he can levise the best method of carrying out a job vithout being tied down to an existing machine et-up. Lastly, the audit programme can be nodified in the light of the arrangements made for he execution of the detailed work on the financial and other records of the client's business.

At the same time, in providing such a service he professional accountant must organize this part of his practice on the proper lines and with the appropriate sense of urgency to ensure that it remains competitive with outside organizations and really gives the client a service which is quick, accurate and economical.

The sort of work which can be included is almost unlimited and has to be decided with the nanagement of the business in each case. The nore common work is likely to be personal and mpersonal ledgers and the work ancilliary hereto (including payment of suppliers' accounts

and impersonal items, analysis, etc.), stock control, production control, wages and other forms of remuneration, etc. An essential part of the service is ensuring that each part of the work is being done in the best possible way.

# Variety of Machines

Choosing the machinery and systems appropriate to the maximum number of clients is, of course, an important matter and one where great advantages can be obtained in cost. Many clients would not be in a position to make full use of a machine and, therefore, its use would be uneconomic, whereas by combining the requirements of several clients, the accountant can have a variety of machines as considered necessary.

Just what machines should be used is something that has to be decided in each case and continually reviewed. Many present-day book-keeping machines are so sophisticated in their application that sometimes sight can be lost of the training necessary. If continued difficulty is found in obtaining highly qualified operators, then the advantage of using a particular machine can be completely cancelled out. However, by keeping the posting procedures as simple as possible consistent with the minimum information required, it is possible to maintain a high standard of accuracy and no great difficulty is encountered if emergency operators are nired.



The Monroe President accounting machine in operation at a small practitioner's office. This machine – of the large capacity full keyboard type – can be programmed to do a variety of routines, including ledger work and wages calculations. The method of changing from one programme to another by virtually dialling a number is an attractive feature because of its simplicity.

# Office Equipment on Show

# SOME EXHIBITS AT THE BUSINESS EFFICIENCY EXHIBITION

The fiftieth National Business Efficiency Exhibition opens next Tuesday at Olympia and continues until October 10th. Many entirely new machines as well as revised and improved models will be on display and while it is impossible to mention them all we call attention on these pages to some of the exhibits. With 164 firms participating, the exhibition will be the biggest yet staged in Britain.

#### Computers and Calculators

HE latest Addo accounting machine, the Class 8000 Model has all the features of the Class 7000 with the added versatility of a typewriter keyboard. This enables narration to be part of the accounting or recording procedure and such applications as the preparation of cheques and traders' credits and the recording of names on payrolls are now possible. Model 4541 is a printing calculator which shows the workings of each calculation printed clearly on the tally-roll. A second register accumulates quotients, products or simple products as required, and the machine includes a constant factor lock for multiplication of several amounts by a constant factor, negative multiplication, discount and mark-up keys, credit balance, non-add and correction key. The newest add-listers are Models 148 and 148E, the latter being electrically operated and having a zero

Addo Ltd, 47/51 Worship Street, London EC2 (Stand 104).

Additions to the range of British Olivetti a accounting machines are the Audi 402St and Aua. 413St, providing fully mechanized accounting for all normal accounting routines and an automatic proof of pick-up. The 413St is designed for superautomatic mechanization of more complex accounting routines. With its dynamic memory and high degree of accessibility it has even greater flexibility than the 402 Model. The RP50, RP60 and RP70 data collectors are on show for the first time also. Their basic features are the capture of data encoded on the Olivetti six-channel square-hole punched paper tape and their flexibility; between them the three models can accommodate all possible data applications.

British Olivetti Ltd, 30 Berkeley Square, London WI (Stand 63).

The Sterling Computronic is an all-electric accounting machine which enables invoices and other business records to be calculated and printed directly in pounds, shillings and pence. CRAM is a unique Card Random Access Memory developed for use with the NCR 315 Computer, its basis being a plastic card 14 in. × 3½ in. on which up to 21,700 alpha-numeric characters can be recorded. The cards are stored in cartridges, each cartridge holding 256 cards, representing a total capacity of over five and a half million characters, and any item can be located, processed by the 315 and up-dated in about one-fifth of a second. The NCR 390 electronic data processing system sorts, summarizes, compares, makes decisions, calculates, accumulates,



The National Sterling Computronic

up-dates balances, modifies its own programme and controls peripheral equipment electronically. The NCR Input Preparation Unit for the first time enables information for computer processing to be listed, punched and verified in one high-speed operation.

National Cash Register Co Ltd, 206/216 Marylebone Road, London NW1 (Stand 110).

The IBM 1401 Data Processing System designed for installation in banks, is basically a card system with 12,000 positions of core storage, 800 cards a minute input, 250 output, and 600 lines a minute printed output. Peripheral equipment includes the IBM 1412 magnetic character reader/sorter, capable of working off-line as a document sorter and on-line as direct input to the computer; an IBM 1011 paper tape reader provides direct input to the system.

IBM United Kingdom Ltd, 101 Wigmore Street, London W1 (Stand 92/98).

The Facit CA2–16 carries out every type of calculation with a minimum of keyboard operations. It can transfer from both the products and quotient registers and on the depression of a single key both transfer and multiplication take place automatically. The quotient register can be used as a store and individual products of the order of  $(a) \times (b) \times (c)$  can be produced, noted and stored and added to or

subtracted from the quotient register without any repeat settings on the keyboard. It can also square any number automatically. The *Bandatronic* electric sterling calculator is an arithmetic unit connected up to six typewriter units each working independently. According to the type of work to be done the arithmetic unit is programmed to multiply quantities in units, dozens or singles at a dozen price, or tons, cwts, quarters at a price per ton, the result being automatically typed out. It calculates discounts of all types. The typewriter units being independent can operate simultaneously on the same or different routines.

Block & Anderson Ltd, Cambridge Grove, Hammersmith, London W6 (Stands 91 and 99).

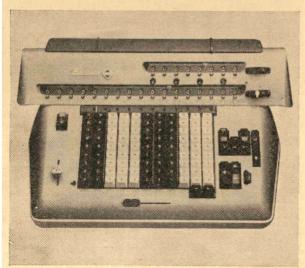
The new electronic range of Adler Accounting Machines consists of the Factura 3 and 300, which are printing calculators. The Factura 3 is based on an Adler electric typewriter for input and output of figure work, combined with a Walther mechanical calculator contained in the pedestal of the desk unit in which the machine stands it enables decimal calculation of invoices and extensions covering multiplication, addition and subtraction. The 300 works on the electronic principle for addition, subtraction and multiplication.

T. S. (Office Equipment) Ltd, 140/148 Borough High Street, London SE1 (Stand 147).

A Madas 20BTZG five-register automatic calculating machine with storage register is shown by Muldivo Calculating Machine Co Ltd, equipped with some new features, including automatic round-off. Automatic squaring is now standard on all the automatic models shown and the squaring operation has been simplified. The company is celebrating its Jubilee Year and is exhibiting some of the machines which it has marketed since its inception as well as the latest productions.

Muldivo Calculating Machine Co Ltd, Dorset House, Salisbury Square, London EC4 (Stand 2).

A desk calculator, the *Badenia Var*, with an electric magnetic transfer is an entirely new development enabling figures to be transferred at the touch of a



Badenia Var desk calculator

button from any position in the carriage instantaneously to the right position on the keyboard, or if desired to the memory register also. The number of digits to be transferred can be pre-selected. This system is combined with an electric memory key which allows figures to be recalled to the keyboard from the memory register, the product register, or the quotient or multiplier register repeatedly, without re-setting.

Badenia Calculators Ltd, Lion House, Red Lion Street, London WC1 (Stand 46).

The 6010 Electronic Desk Computer, designed for high-speed computation as well as descriptive alphabetical information, can make over 750 additions in one second – 45,000 a minute. A versatile machine, it will accept input from punched tape, edge-punched cards, tabulating cards, auxiliary input units or the keyboard of the Friden Flexowriter, which is an integral part of the computer. It is compact, will work unattended and can be used for a wide range of accounting applications. The Collectadata 30 enables data to be collected and transmitted from the factory shop floor to a central data processing unit. It permits both badge and punched-card reading and offers foolproof facilities for recording employee time and attendance.

Friden Ltd, 93 Blackfriars Road, London SEI (Stands 78 and 148).

(Stands 70 and 140)

In addition to their own products, Ultra Electronics Ltd are exhibiting the Eichner Tronictyper and Tronictyper Programmat and a new Notatronic invoicing machine made by the Eichner Organization of Frankfurt-am-Main. Their own exhibits include an electric Invoice Writer, which is a configuration of a typewriter with an electronic arithmetic unit which works out the extensions and aggregations and automatically types them. The Datawriter is an automatic typewriter unit with paper-tape reader and punch, operated by feeding tape through the reader or in reverse, and also provides data which can be fed into a computer.

Ultra Electronics Ltd, Western Avenue, London

W3 (Stand 133).

A '550' Plan has been devised by the Monroe Calculating Machine Company particularly for businesses employing manual book-keeping methods or having orthodox book-keeping machines due for replacement. It includes a Monroe 166B200 Book-keeping Machine ready programmed for customers' sales ledger, purchase ledger and payroll, plus a machine stand with two side extensions, a selected posture chair for the operator, free stationery for many months' needs, one or two ledger trays and a set of index guide cards.

Monroe Calculating Machine Co Ltd, Bush House, Aldwych, London WC2 (Stand 108).

Two 'second generation' electronic computers, the I.C.T. 1301 and 1500 are fast, powerful and versatile data processing systems. The 1500 is being shown with magnetic and perforated paper tape input and output. Among the punched-card machines exhibited are the 1039, a new eight-channel tape to card converter and a new key-punch with a slim-line alphabetical keyboard.

International Computers and Tabulators Ltd, Gloucester House, 149 Park Lane, London W1 (Stand 21/57).

jamming. Small, portable and lightweight, it is manufactured by Tech. Panel Co Inc.

Punched Card Accessories Ltd, 58 Victoria Street, Westminster, London SWI (Stand 169).

The Wade International Add-lister is a simple hand or electrically operated machine. The simplified keyboard makes all types of calculation easy and the paper roll is standard size and easily loaded. It is capable of entering and totalling £99,999,999 195 11d and the positive balance is printed in black and the credit in red.

B. M. J. Beaucourt Ltd, 27 Chancery Lane, London WC2 (Stand 65).

ANITA is a fully electronic desk adding calculator which silently produces figures at electronic speed and is the only pre-set calculator with direct addition and subtraction. Answer figures are large and illuminated. It has automatic decimal pointing.

Sumlock Comptometer Ltd, 39 St James's Street, London SWI (Stand 103).

The centre of the machine section of the Remington Rand stand is devoted to the *Univac 1004* punched card data processing system. A scale model and a film of its operation are being shown.

Remington Rand Ltd, Remington House, 65 Holborn Viaduct, London EC1 (Stand 109).

# Continuous Stationery

COMBINING the operations of decollating and stub-trimming printed sets of continuous forms, the Decotrim has a stub-trimmer as an integral part of the decollator with a built-in variable speed motor, and will trim stubs of  $\frac{3}{8}$  in. to  $\frac{7}{6}$  in. widths from forms of up to 12 in. deep and 18 in. wide at up to 300 ft. per minute. The decollating unit separates forms and carbons at up to the same speed, refolding forms into tidy packs ready for further use and furling waste carbon paper on to a split roller. The Sten-C-Label will cut address stencils at the same time as address panels of docket sets are typed or printed. It is easily affixed to all forms of docket sets before processing and then detached and used with a special squeeze-feed applicator.

Lamson Paragon Ltd, Paragon Works, London E16 (Stand 88).

A new economic system of continuous interfold stationery is provided for all standard typewriters by the *Repeat-O-Rite*. The stationery is fed into the machine in the usual way, the typed information is easily pulled through by using the new style *Klip-Bar*, plus a carbon pocket that will give at least fifty clear copies without touching or changing carbons, and when the form is torn off the next is already in position interleaved with carbon. The *Rocker-Box* can be attached to the carriage of a typewriter and holds the stationery in constant relation to the typing position, however fast the carriage movement.

James Wilkes Ltd, Bilston, Staffs (Stand 68).

A hand-operated Davis Burster/Deleaver enables forms to be deleaved and burst in a single operation, eliminates carbon handling, adjusts for any sized form at the touch of a finger, and takes stacks up to 10 in. thick at one loading. If forms are fed in crooked they are automatically straightened; crumpled or wrinkled forms are separated and the machine carries on without

# Communication Systems

TWO models of the Bulmerette dictating machine are available, a portable and a mains. The portable is a battery operated tape-machine, the tapes and spools being interchangeable with most of the popular dictating machines. It provides full remote control from microphone, eighty-eight minutes recording time, operation direct from car battery, built-in preamplifier, and volume control, and weighs only  $6\frac{3}{4}$  lbs. complete. The mains model has the same features but can be used from the mains. It can be fitted with two rechargeable power units which are automatically charged when the machine is in use. It incorporates a fast forward control to enable the typist to get into the tape quickly when the first letter to be typed is not the first to have been recorded.

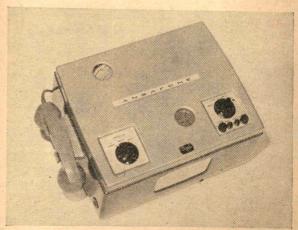
Bulmers Business Machines Ltd, Empire House, St Martin's-le-Grand, London EC1 (Stand 165).

The *Travel-Master* is a small lightweight portable recorder for on the spot dictation away from the office. It takes four hours' recording and the batteries are charged overnight by a trickle charger. It records on the standard Dictabelt medium so that standard Time-Master transcribing machines can be used. The *Time-Master Model TA* 6 is a new dictating machine for general office use providing permanent dictation that cannot be erased or changed, full visibility for quick place finding; easy mailing, filing and handling. The *TBJ6 Transcriber* is a companion model.

Dictaphone Co Ltd, 17/19 Stratford Place, London W1 (Stand 151).

The *Ansafone* answering and recording machine can be used as a long distance dictating machine from any telephone at any time, making possible the exchange of written memos with the speed of the telephone and accuracy of the written word.

Ansafone Ltd, Camberley, Surrey (Stand 34).



Ansafone telephone answering and recording machine.

The rols dictating machine uses a new recording medium in the form of a broad roll of magnetic film, providing eight and a half hours dictating time, on which the recording is made horizontally and vertically. Controls are on the hand microphone, and the recording head automatically reverses as it reaches each side of the film. When a piece of dictation is complete the portion of film is guillotined by a simple mechanism and a filing margin automatically provided, so it is immediately available for the typist. The machine is easily transportable and has a number of accessories which extend its usefulness.

Block & Anderson Ltd, Banda House, Cambridge Grove, London W6 (Stands 91 and 99).

The Edas Director is a loud-speaking telephone instrument that can be connected to an automatic telephone exchange having named key-calling for twenty extensions and touch button dialling for other services and extensions. The loudspeaker can be controlled and is fitted with an amplifier microtelephone for secret conversations. Edas Executive is a desk pad with thirty rectangular touch button controls for connecting to any automatic desk telephone. It can be arranged for named button calling for thirty extensions, or alternatively for twenty extensions and ten touch-buttons with key sending figures 1-o. A completely automatic telephone ordering system, the Ordermatic, enables one person to handle three telephones, thus overcoming the problem of staffing an order office at peak times.

Shipton Automation (Sales) Ltd, Africa House, Kingsway, London WC2 (Stand 102).

A new centralized dictating system – Aga Type 2 Teledictation – can be operated through a private automatic exchange (PAX), a private automatic branch exchange (PABX) or a separately wired circuit, with basically the same equipment. It can take from one to six machines and occupies very little floor space. The dictator can start or stop a machine, play any part of his dictation back, mark corrections or insertions on the index strip on the machine and call the typing supervisor. The Agavox Model 2 Dictating Machine is completely controlled from the microphone. Though only 3 in. high it incorporates a number of protective devices to prevent mis-operation. It uses a twelve-minute flexible plastic disc with a minimum life of 20,000 recordings.

Aga Dictating Machine Co Ltd, 146 New Cavendish Street, London W1 (Stand 119).

The Centrum T-3 low-cost three-point transistor intercom is unusual because the master station has been reduced to the same size as the small sub-stations. It measures only 7 in.  $\times$  5 in.  $\times$  3 in. but gives excellent voice-production, and very fast intercommunication. It is particularly useful for professional offices and small businesses.

Centrum Electronics Ltd, Terminal House, Grosvenor Gardens, London SW1 (Stand 122).

### Addressograph and Data Recorder

A MACHINE combining the normal Addressograph transcribing methods with mechanical punched card accounting functions is the *Class 9300* Addressograph. In a single operation constant repetitive



The New Aga Type 2 Teledictation Unit.

data are reproduce-punched into eighty-column tabulating cards, additional common information is gangpunched, and each card is clearly imprinted with as many as ten forty-character lines of pre-verified parrative interpretation as well as ancillary legend. Up to 1,500 written lines can be accurately transcribed and up to 6,000 card columns of punched numeric data reproduced every minute. The 12-62 Data Recorder should be of great assistance in the collection of small weekly hire-purchase instalments. All relevant details will be embossed on a plastic strip fixed in the cover of each customer's pay-book and the retailer has only to place this strip in the Data-Recorder and take an impression on to a three-part carbon receipt, which provides the customer's receipt, retailer's record and advice to the finance company.

Addressograph-Multigraph Ltd, Maylands Avenue, Hemel Hempstead, Herts (Stand 62).

# Cheque Protectors and Signers

NEW range of cheque protectors and signers offer security against forgery, and the machines are available in electrical or manually operated models. An adjustable gauge provides positive registration for all sizes of cheques and dividend warrants in single or continuous form, and cheques can be written to the value of £99,999 198 11d. Live indelible ink shreds the amount to be written in clear, unalterable figures. The cheque signers provide security features — a tamperproof counter and three locks, an overload safety locking device controlled by a micromatic setting for exact cheque thickness, a sealed-in, non-reset counting device which counts only when each cheque is printed with the signature plate in place.

Acral Ltd, Sentinel House, Southampton Row,

London WC1 (Stand 9).

# **Duplicating and Printing**

THE new Gestetner System-matic Offset machine is designed for the complete automation of off-set systems. A complete printing cycle may be programmed on the control panel, where controls in logical sequence direct all operations automatically and offer a preselected option of blanket cleaning and drying at the start of run, end of run, between runs or deletion from cycle altogether. Two-machine versatility conversion from automatic to manual operation can be achieved at the touch of a switch.

Gestetner Duplicators (B.S.O.) Ltd, Gestetner House, 210 Euston Road, London NW1 (Stand 23/36).

Among the new OMAL productions are the Copyrex R5, a hand operated spirit duplicator with an auto-tank feed to give clean handling and operation. Photocopiers Models 33 and 34 have auto-sac chemical filling and produce copies within ten seconds. The Omalith Litho-plate maker is designed for quick production of a litho plate from an original by photocopy process and deals with originals up to 13 in. × 21 in. The 490 DF (double foolscap) gives quality printing results yet is simple enough to be operated by a junior.

Office Machinery Ltd, Omal House, 169 Tottenham

Court Road, London W1 (Stand 67).

The Verifax Witness A 3 copier makes copies as large as 14 in. × 18 in. and is therefore particularly useful for offices handling both standard size and larger documents. The Kodak Ektalith method is a new way of producing simply and quickly, and at low cost, paper masters from which thousands of copies can be made. The Recordak Micro-film Camera, Model A.H.5, will copy originals up to 20 in. × 30 in. on to 100 ft rolls of 35 mm film, and the Recorder Reader Printer makes a print of any document on 16 mm microfilm with push button ease.

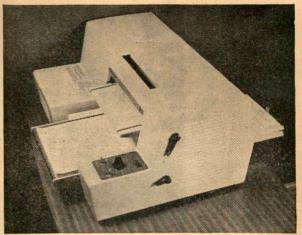
Kodak Ltd, 246 High Holborn, London WC1 (Stand 18).

A spirit master capable of producing 300 copies from any reasonable original is the *Orlid Fotospirit*. It gives complete accuracy of registration between original and new master, and is clean and simple to operate. Electronic control of exposure prevents waste of materials. Two new spirit duplicators are capable of laminating documents, route cards, etc., with a dirt and tear resistant film. The *D230 MTA* feeds airmail paper at 125 copies per minute.

Bulmers Business Machines, Empire House, St Martin's-le-Grand, London EC1 (Stand 165).

The all-dry Thermo-fax process is now extended by a companion unit to produce copies from originals in colour, whether single sheets, books or magazines, and from hand-written documents in any ink. No chemicals are required and the original document, placed in *Model 48* with a sheet of film, takes about twenty seconds exposure. The *Encore-Automatic* is an all-electric desk-top copying machine which produces twenty-five copies a minute. It is only necessary to insert the original, set a dial for the number of copies, and press a button

Minnesota Mining and Manufacturing Co Ltd, 3M House, Wigmore Street, London W1 (Stand 28).



Thermo-fax Encore-Automatic Copying Machine.

The Multimatic Copier, which is available in three models, eliminates the mixing and handling of fluids and can be ready for use in less than five seconds. It gives black on white copies of written, typed, printed or drawn in any colour ink originals, and exposure time is only two seconds. The Bullseye is a baby portable machine that fits into a briefcase and is automatic in action. There is no tank and no liquid but sufficient fluid for instant operation is released by pressing vacuum sealed capsules. The Anson B-Line range of dyeline copiers is new to the British market. Each machine has its own unique features and Models 280 and 275 are designed specifically to reduce costs of large-scale documentary systems. Models A4000 and A3000 and A1000 B-Line Duet are all desk-top machines, the last named being two machines in one, the bottom section housing dual exposure lamps, the middle section the developing unit and the top section the photocopy unit.

George Anson & Co Ltd, Solway House, Southwark

Street, London SEI (Stand 31).

The Azoflex Model 135 is a combined printing and developing apparatus designed especially for medium-sized businesses and for copying engineering drawings. The original is fed into the machine with Azoflex diazo paper, after exposure the original and exposed paper are automatically separated and the latter fed into the developing section which is synchronized with the printer. After development the copies are dried and delivered on to a receiving tray at either end of the machine as required. The machine can maintain a high output with the minimum of effort.

Ilford Ltd, Ilford House, 133/135 Oxford Street, London W1 (Stand 155).

# Duplicating

DEVELOPMENTS in electrophotographic automatic copying include the Ozafax 20, a table-top unit which produces up to twenty copies a minute, either as single copies from a series of originals or multiple copies from one original, from black and white or coloured originals. The Ozafax 19 is a fast

automatic enlarger making 18 in. × 24 in. or 12 in. × 18 in. enlargements from 35 mm unperforated microfilm mounted on aperture cards. Copies are produced at a speed of six per minute automatically guillotined to standard size and stacked. Programming is done by plain punched leader cards which the machine reads to indicate how many copies are required. A table-top copier working on photographic principles is the Ozajet, incorporating both exposure section and continuous processor. An operating keyboard of two dials and five keys enables copies to be made from any original at the rate of ten a minute.

Özalid Co Ltd, Langston Road, Loughton, Essex (Stand 60).

A display of individual but complementary Pitney-Bowes machines brought together to form a single integrated flowline of operations, ending with the sealing and franking of mail, shows how economics can be effected in the post room. Among other exhibits are two hand-printers: *Model 150*, which is about the size of a desk telephone, is specially useful for repetitive work, and *Model 6* has been designed for the small user. *Model 90* high-speed embossing machine is equipped with a finger-tip controlled electro-magnetic embossing mechanism. It has the complete alphabet in capital and small letters, two sets of numbers and a full range of punctuations and standard abbreviations.

Pitney-Bowes Ltd, 175/176 Tottenham Court Road, London W1 (Stand 107).

# **Typewriters**

TYPEWRITER of advanced design embodying many technical improvements is the *Imperial 70*, among its special features being a removable carriage and platen and the provision of five carriage lengths. The carriage can be lifted out with half-finished workstill in it and be replaced by a different carriage length for a more urgent job. An interchangeable platen roller enables the correct grade of hardness to be used, and a new key lever gives a fast and sensitive touch. The keyboard has forty-two characters and many other symbols and characters, e.g. medical, mathematical, literary, are available.

Imperial Typewriter Co Ltd, East Park Road, Leicester (Stand 144).

The Olivetti 84 is an all-electric typewriter with several features giving the possibility of a 20 per cent higher typing output. It includes repeat forward and back spacing, repeat typing on eight symbols, interchangeable carriages, the choice between a single-bar tabulator and an eight-key sterling tabulator, the option of carbon ribbon attachment and fully integrated carriage controls.

British Olivetti Ltd, 30 Berkeley Square, London W1 (Stand 63).

### Furniture and Safes

THE latest Mobinet Ledger Trolley has been modernized in style. Both upper and lower parts are enclosed and can be secured by one lock. Two sizes are available with internal widths of 24 in. and 30 in. and both can be fitted with built-in ledger tray fitments, if required. A Postal Distribution Trolley accommodates about fifty foolscap files, has an overall height of 39 in.,

length  $3\frac{1}{2}$  in., and width 18 in. with a full-length slide tray. A trolley for the collection and distribution of parcels has two compartments 11 in. high  $\times$  36 in. long  $\times$  18 in. deep, with mesh surrounds on three sides and open on the 36 in. side. It also has an upper container.

Mobinet Co Ltd, Heneage Street, Brick Lane, London Er (Stand 69).

Special anti-blowpipe and drill resisting armour cast in one piece and an improved automatic device giving protection against explosives are features of the new Duplextra Safes. The thickness of the door has been increased and the locking mechanisms and boltwork revised. They are available in two qualities and five sizes with various arrangements of key and/or keyless locks. The Card-a-Matic Filing Machine is fitted with twelve platforms each with six trays of eighty-column punched cards, accommodating a total of about 120,000 cards. The number of platforms may be varied and the trays made to suit various widths. The machine is electrically operated and takes the shortest route to any platform.

Chatwood-Milner Ltd, 58 Holborn Viaduct, London EC1 (Stand 123).

The latest range of *Flushline Chairs* are solidly built from tubular steel, lightweight and easy to carry. They have moulded latex cushioning, self-positioning back rests and simple height adjusters. They are made in nine models and six colours.

/ Roneo Ltd, 17 Southampton Row, London WCr (Stand 59).

# **Binders and Files**

THE Hatton Binder is primarily a transfer binder to take sheets 11 in.  $\times$  8½ in. punched at 8 cm. The grained and varnished brown board covers are fitted with a positive locking mechanism which can be fitted also to larger covers. The 6 in. long posts have a diameter of  $\frac{3}{10}$  in. To meet the demand for a suspension filing folder fitted with a clip to hold unpunched papers the Tri-clip will fit on to standard foolscap, quarto and double capacity foolscap folders and will grip one hundred sheets of paper as easily as one. The Vetro personal File has been redesigned with a drop front giving easy access to folders, and a flat-lying handle which improves the appearance of the file.

Percy Jones (Twinlock) Ltd, Chansitor House, Chancery Lane, London WC2 (Stand 105).

The Multicard vertical, visible card-recording system covers all requirements from simple indexing to complex records. The cards are arranged in rows across the width of the unit, with up to fifty titles visible at a glance. When a card is removed a V-shaped opening remains so that it can be easily replaced, and accuracy is ensured by an automatic our signal. The system is equally suitable for hand or machine posting and it can be expanded or contracted as required. A single M20 unit will house almost four thousand cards but occupies less than 3 sq. ft of floor area.

Roneo Ltd, 17 Southampton Row, London WC1 (Stand 59).

# Weekly Notes

### COLLECTING THE RATES

EVEN if the uncertainty of individual ratepayers regarding their prospective rate charge after April 1st next still remains, there is no doubt that for the ratepayers of England and Wales as a whole, the aggregate rate payment will rise. In a plain-spoken address to the 1962 conference of the Rating and Valuation Association, Mr J. Eyles, F.S.A.A., F.I.M.T.A., Borough Treasurer of Preston, reminded his audience that between 1951-60 local authority debt had risen by 150 per cent and that the annual rate collection had more than doubled. The expansion of local authority activities and not least rising costs and salaries would ensure the continuance of this trend.

Despite this, the speaker showed that in ten out of twelve randomly selected boroughs the weekly rate bill for 70 per cent of all households was less than 15s per week. Bearing in mind the services and benefits provided for this meagre outlay, the ratepayer had small cause for complaint. For a small minority, such as some old-age pensioners, Mr Eyles, conceded that there might be hardship, but this was for the Government to alleviate, not the ratepayer. The speaker's undoubtedly strong case would have been even more convincing if the majority of citizens did not feel that not all chief officers in local authorities were as economy-minded as their financial colleagues, while for others it seems that local councils all too often consider expenditure merely in terms of electoral advantage.

'In an age when any sum over £ 10 is regarded as a hire-purchase matter . . . it is quite unreasonable for treasurers to expect payment in one or at most two instalments,' declared Mr Eyles, who is anxious to provide facilities for some system of P.A.Y.E. collection and advocates a scheme whereby large local employers might co-operate in deducting a weekly sum for rates and paying the sum over to the authority at halfyearly intervals. For the employer who is short of working capital, Mr Eyles shows that such a scheme could save the former a substantial interest payment on alternative borrowings. His proposal also has the merit that it would not need Parliamentary sanction. Whatever one's views on it, however, the fact remains that unless local authorities are to be burdened by heavy rate collection costs and conscientious ratepayers burdened by the written-off arrears of those less conscientious, some scheme on the lines proposed by Mr Eyles will be necessary before long.

# PRIME MINISTERS ON E.C.M.

THE communiqué issued last week at the end of the Commonwealth Conference of Prime Ministers and dealing mainly with British entry into the European Common Market probably represents as large an achievement for Mr Macmillan as he ever expected to bring off. Getting there, however, may have been a more arduous exercise then he bargained for. The British point of view was assisted by the fact that the Prime Ministers were more outspokenly critical in public than they were in private and also because none of them offered a coherent, carefully prepared alternative.

Two main objectives were reached from the British point of view. First, no new specific commitments for the next round of negotiations at Brussels have had to be accepted from the rest of the Commonwealth. Second, no second Prime Ministers' conference to approve the final terms has been agreed

upon.

Mr Diefenbaker, Prime Minister of Canada (and one of the most adamant critics of British entry into E.C.M.), said after the conference that future meetings should be held 'if that seems satisfactory'. This does not amount, however, to insistence that another formal conference is desirable. None of the Commonwealth Prime Ministers have been enthusiastic about Britain's application but in the end they have in varying degrees accepted the idea that this country needs the E.C.M. for its own economic progress and that therefore the rest of the Commonwealth must become used to the idea.

## ROYAL COMMISSION ON THE PRESS

THE Report of the Royal Commission on the Press¹ under the chairmanship of Lord Shawcross (and with Professor Robert Browning, M.A., Ll.B., C.A., Professor of Accountancy at Glasgow University, as one of its four members) was published last week. Its findings are critical both on the efficiency of the industry as a whole and on the question of concentration of control.

Inefficiency in the industry is underlined, particularly on various forms of feather bedding, and the report considers that the lack of foreign competition is a major cause of swollen costs. It does not consider that outside intervention will be of any use in increasing efficiency, however. It views the Press in this context as just one more industry where progress and eventual success must depend on good management and good labour relations.

The Commission, it will be recalled, came into existence at the time of public disquiet over the fight to acquire Odhams and over the closure of the *News Chronicle*. It sees the death of newspapers as inevitable if their enterprise and management is not of a sufficient level to secure survival. All newspapers are to some

<sup>&</sup>lt;sup>1</sup> Royal Commission on the Press 1961-62 Report. H.M.S.O. Price 13s.

extent caught up in the vicious circle of keeping prices down to secure circulation which sells advertising space on which they depend in varying degree, and there is no sign of a formula to change this state of affairs.

On future amalgamations and on ownership of both newspapers and television interests they are much more sure of what they think should happen. They favour legislation to reform and strengthen the Press Council and they would prohibit newspapers from having a controlling interest (but not an investment interest) in television.

### REPORT OF THE PUBLIC TRUSTEE

THE fifty-fourth annual report of the Office of the L Public Trustee for the twelve months ended March 31st, 1962, shows a deficit of £23,344. Expenses amounted to £685,181, an increase of £45,062 over the finally ascertained expenses (£640,119) for the previous year. Receipts increased by £43,952 to £661,837.

During the year, 461 new cases of a total value of £7,108,441 were accepted, being thirteen more in number and £639,580 less in value than those accepted during the previous year. The average value of trusteeships was £22,845 compared with £16,895, and of executorships £10,934 compared with £16,869. The average acceptance fee dropped from Lioi to £88 and the percentage of cases under £5,000 in value was 51.5 per cent as against 55 per cent. The number of cases completely distributed during the year was 882 compared with 736 for the preceding year with an average value of £13,232 compared with £12,078. The total value of estates completely or partially distributed was £15,289,514, compared with  $f_{12,026,032}$ .

# This is My Life

by An Industrious Accountant

CHAPTER 139

E'VE just had a luncheon party to celebrate the arrival of our new wing at its penultimate stage - the completion of the roofing programme. Our directors came, of course, some with wives, also the architect and the builders and some sub-contractors who did the steelwork, wiring and so on. At the tail-end of the list was our young cost accountant, who had done some really good studies on the spreading of the overheads over the various floors; he's still rather unsophisticated so I felt that attendance at the occasion would be good for him.

There was naturally some hilarity at the cocktail stage. One of the sub-contractors, a big, somewhat raucous-voiced, hard-bitten fellow, had started his celebrations early; he was drinking whisky like water and barking over-loud greetings to all and sundry. He was particularly effusive to our deputychairman, who had handled the building contracts, and even that tough character was showing signs of

embarrassment.

Always the helpful type, I detached Raucous tactfully on the excuse of filling his glass again. He put his arm heavily round my shoulder and explained what a good chap the deputy-chairman was, 'Always been a real good pal to us, he has,' he rumbled. 'Gone out of his way to help us.' He gulped hugely at his glass and slopped some of his drink on my coat, much to my annoyance. Being helpful doesn't always pay off. I dried the liquid with my handkerchief, observing

him with some distaste. He noticed my expression and promptly reciprocated.

'Not like some of you so-and-so's, always finding fault with our accounts,' he sneered. 'He doesn't fuss over trifles, he's a good friend to us. Yes, and we're good friends to him, too; we know which side our bread's buttered; we've treated him so-and-so well.' He chuckled with a quick change of mood. 'We know who hands out the contracts, we know how to butter his bread, too.'

He went on tauntingly about accountants not knowing how to look after themselves, poor mugs, with an unmistakable innuendo of directorial bribery. I realized that Costs was listening with startled eyes and decided to stop the rot quickly. Our deputy-chairman's reputation must be protected.

You've talked enough to justify a slander action. Moreover, you're lying,' I said curtly. Costs took a deep breath; his faith in human nature was restored with a surge of relief. He cocked his chin in fiery style. 'Shall I take over, sir?' he asked. Raucous suddenly realized that he'd gone too far; he pulled himself together with an obvious effort, brows lowering and chin trembling. 'You fools can't take a joke,' he muttered venomously. 'I said nothing out of line.' He turned away and was gone.

I nodded dismissal to Costs; but esprit de corps can be expensive; Raucous has good friends at Court as I realized when I overheard the deputy-chairman's wife accosting the sub-contractor later. 'Such a lovely present, Wilson, but you really shouldn't, you know,' she said. 'We'll thank you properly later this evening.'

The unemotional deadpan technique is safer and more prudent, of course, when dealing with hostility, but at heart I prefer Costs' loyal reaction as being more appropriate for accountants.

# Finance and Commerce

# Centenary

THE 1962 accounts of A. F. Stoddard & Co Ltd, of Elderslie, Renfrewshire (the subject of this week's reprint), mark the centenary of this Axminster and Wilton carpet-making business – 'a very special occasion'. Employees have received a gift of Premium Bonds based on length of service. Shareholders have a 2½ per cent Centenary Bonus 'despite the drop in profits', and are reminded that even on the reduced earnings, the increased distribution is still rather more than twice covered.

So far as sales were concerned, it was a peak year which produced 'just over £7½ million'. Costs were the great problem, rising faster than sales, and 'the battle for the foreseeable future is likely to be one of keeping costs down no less than keeping sales up. Unfortunately, in the year to date, turnover has not been maintained, though costs have so far been held':

Overseas conditions are causing concern. Canada has put up its protective duty from a net 22½ per cent to 37½ per cent, which 'must further adversely affect sales of carpets to Canada' although the Canadian subsidiary is still expected to provide a modest surplus of about 5 per cent on the sum invested. America has raised the duty on Wilton carpets from 21 per cent to 40 per cent 'to our great surprise, and quite contrary to what we understood to be American official policy'. And there is no easement in exporting to Australia, New Zealand or South Africa. But, all in all, 'we should, unless some marked change in fashion occurs, be able to look forward to fairly steady though not necessarily very profitable trade'.

# Turnover

Sir Robert A. Maclean, the chairman of Stoddard, is worth quoting in his reference to the publication this time of a sales figure. Having given the 'just over £7½ million' figure, he continues: 'I would here make the point that it is not intended to disclose in all future statements the actual turnover for the year under review, as your directors consider that it would not be in the best interests of the company to do so. It is realized that this figure is of interest to shareholders and its occasional disclosure seems appropriate as an indication of long term trend.'

One can understand the reasons that presumably lie behind the decision but, nevertheless, it is regrettable, because it runs against the tide of public opinion. Apparently, publication of turnover will depend on how long it takes to discern a long term trend – especially if it is downward. It would be very

human to delay publication for just another year in the hope that the turn will come, and if, as and when it does come, to wait for just another year to see if the new direction is maintained.

This sort of information loses its value unless it is provided regularly.

### **Statistics**

Omitted from the Stoddard reprint is the company's 'Group Statistics for the years 1953–1962'; space hardly permits. But the layout deserves a mention. The first half gives profits and distribution; the second half gives a short summary of capital employed and how it is represented by ordinary capital and reserves, with total, followed by the preference, minority holders, reserve future taxation, and debenture.

There seems to be a trend developing. Profit for year before taxation, which can be seen in the reprint as £431,829 to compare with £630,115 in 1961, and in the group statistics to go back to a peak of £788,450 in 1960. The decline puts quite a new complexion on the earnings percentage on the ordinary, which has come down from 71.4 per cent (distribution 12½ per cent) in 1960 to 54.8 per cent (distribution 12½ per cent) in 1961 to 32.6 per cent (distribution 15 per cent) in 1962.

# No Arithmetic

SHAREHOLDERS in Friary Meux Ltd, the brewers, are asked to note the 'new look' given to the balance sheet. 'The Board feel that this form of presentation which is common practice in many companies, will commend itself to you. Net assets are shown without the necessity for arithmetic as in the past.'

The new form runs down on the left from fixed assets to net assets before deducting loan capital, and on the right shows how the net assets total of £10,580,867 is represented by future taxation, loan capital, share capital and reserves and surplus. In reality, it is the standard balance sheet form with liabilities and assets in reversed positions and with current liabilities and provisions shown as a deduction from current assets.

But 'without the necessity for arithmetic as in the past'. Which takes this column back quite a long way to where it 'came in' with the urge that balance sheets could so easily dispense with need for arithmetic if only the items and figures were set out in a rational manner.

Long campaigning — 'long', because it is extraordinary what conservatism had to be overcome — has produced the present-day form of accounts. In those early days — incredible as it may seem to the present younger generation of accountants — capital subscribed and undistributed profits (before the year's appropriations) were separated by all the other items on the liabilities side. And the balance sheet meant nothing until the arithmetic was done.

# A. F. STODDARD AND COMPANY LIMITED AND SUBSIDIARY COMPANIES Consolidated Balance Sheet as at 31st May 1962

Net Book	Value 1961	6619,869 £609,448	17.553	£1.375.340 £1.				000'09 006'09				6			9 . 23,489	2000			4,250,812 4,221,584		- -						£5,687,142 £5,680,539
	or at cost written off	lings £991,126	Moror Vehicles 49 Aguipment, etc. 2,124,597 1,386,679	372 (81 87			TRADE INVESTMENTS:	Shares in Associated Companies, at cost	• ,			Stock in Trade	epayments less Provision for Bad debts	Amounts due by Associated Companies 3,071	Life Assurance Policies-Premiums Paid 25,839	(Surrender value at date £20,300)	Prinsi Covernment and other quoted investments co, 303 (Market Value £94,022; 1961 £89,386)	Cash at Bank and in Hand 59,714				ROBENT A. MACLEAN  B. RARCI AY				•	
1961	6150,000	150,000	25,000	650,000	400,000	£1,575,000	€300,000	225,000	£1.175.000	and a state	€10,029	414,648	424,677	<b>S</b>	1.450.600	284,236	1,758,236	£3,357,913	239,750	82,784		\$1.701.425	196,535	485,335	26,797	2,000,092	£5,680,539
	£150,000	150,000	200,000	650,000	400,000	71,575,000	£300,000	225,000	950,000	7	€10,029	414,648	424,677	•	24,000	000,626,1	1,852,490	£3,452,167	174,000	80,415		£1.163.314	366,848	410,203	40,195	1,980,560	£5,687,142
APITAL AND RESERVES: Share Capital of A. F. Stoddard & Co. Ltd. Authorised:	15,000 Preference Shares of £10 each	150,000 Preference Shares of £1 each	20,000 Ordinary Shares of £10 each	650,000 'A' Ordinary Shares of £1 each		ssued and Converted into:	5% Cumulative Preference Stock		•		Share Premium Account	Excess of net assets in Subsidiary Companies at date of acquisition over book value of shares				Orneral	:	CAPITAL AND RESERVES		DEBENTURE LOAN (4½%): Secured over Buildings and Life Assurance Policles of Subsidiary	NENT LIABILITIES: Sundry Creditors and Charges accrued including Revolving Acceptance Credit of £350,000 (secured	ts of the Company) and its Provident and Pension		Provision for Taxation due for payment In ensuing year	Proposed Final Dividend and Special 'Contenary Year' Bonus, less tax	•	

### A. F. STODDARD AND COMPANY LIMITED AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account for the Year ended 31st May 1962

				1961
Group Trading Profit and Su	ndry Incom	ıe	£425,119	£623,284
After charging:—	,	1961	1	,
Debenture Interest	£3,681	£3,785	İ	1 [
Depreciation written off Buildings, Plant, etc.	162,799	171,159		
	£166,480	£174,944	İ	ŀ
	2100,100			1
Income from Investments	•	62.000	•	
Trade Investments		£3,000 3,710		[ ]
Quoted Investments		3,710	6,710	6,831
Profit for Year before Taxat			£431.829	£630,115
U.K. Taxation on profit of the			E431,027	E030,113
Profits Tax	ie year	£72,863		l i
Income Tax	•	175,135		1
income rax			247,998	327,280
Profit for Year after Taxatio			<del></del>	
attributable to Group			£183,831	£302,835
Retained in the Accounts of t	he Subsidiari	les:		
General Reserve				£22,500
, Unappropriated profits	•	£12,652		15,172
•	•		12,652	37,672
Net Profit of A. F. Stoddard	& Co. Ltd.		£171,179	£265,163
Balance from previous year			83,561	94,576
Balance available			£254,740	£359,739
Dealt with as follows:				1 .
Transfer to General Reserv	e	£75,000		£200,000
Dividends paid and propose 5% Cumulative Preference	ed, less tax Stock	9,187	_	9,187
Ordinary and 'A' Ordinary	Stocks—			· · · ·
Interim of 71 per cent.		40,195	•	40,494
Final of 5 per cent.		26,797		26,797
Special 'Centenary Yea	r' Bonus of			11 11
2½ per cent.		13,398		
			164,577	276,178
Balance forward in Balance : A. F. Stoddard & Co. Ltd.	Sheet of		£90,163	£83,561
Accumulated Profits retained in Loss Accounts of Subsidiary C	Companies		213,327	200,675
Balance forward in Consolidate Balance Sheet	ated		£303,490	F924 224
parance Sneet			2,303,470	£824,236
				L

### A. F. STODDARD AND COMPANY LIMITED

# **NOTES ON THE ACCOUNTS**

These notes form part of the Consolidated Accounts of the Group and are given to conform with the requirements of the Companies Act, 1948

1. Commitments for Capital Expenditure not provided for in these accounts are

A. F. Stoddard & Co. Ltd. Subsidiary Companies

£8,777 (1961, £62,000) £31,638 (1961, £45,100)

- The financial year of the Canadian Subsidiary Company ends on 31st March and for administrative convenience it is proposed to make no change in this date.
- Canadian currency has been converted into Sterling at the rate of \$3.061 to £1 Sterling.
- Contingent liabilities in respect of Bills discounted are as follows:-A. F. Stoddard & Co. Ltd. Subsidiary Companies £27,032 (1961, £12,794) £634 (1961, nil)
- The aggregate Emoluments of the Directors of A. F. Stoddard & Co. Ltd, amounted to £59,042 (£69,716), being Directors' Fees £900 (£816), other Emoluments including Pension Fund Contributions £55,395 (£66,153) and Pensions of Past Directors £2,747 (£2,747).
- The sum of £12,000 has been transferred from Provision not now required towards the cost of the history published to mark the Centenary of the Firm.

# CITY NOTES

THE now familiar pattern of a rampant giltedged market and a docile and drifting market in ordinary shares has continued this week. Attention concentrated on the gilt-edged rise has tended to obscure the fact that the equity markets flatly refuse to have anything to do with discounting the presumed economic re-expansion which the Chancellor is expected to attempt to induce.

Normally at this stage of the proceedings after the lapse of twelve months following a crisis Bank rate and attendant restrictions, the equity market is thinking optimistically in terms of new growth; but not now. The only bright spot in equities has been the performance of new issues. Heavy oversubscription of new share offers has been followed by impressive premiums in early dealings.

This is a decided bull point for the New Issue Unit Trust whose offer of two million units at 5s has just closed. The offer follows the success of the New Issue Permanent Investment Company, and like that company, the Unit Trust will specialize in a portfolio of new shares through offers, placings, rights issues and the like. The new trust usefully fills a gap in the specialist unit trust ranks.

### RATES AND PRICES

Closing prices, Wednesday, September 26th, 1962

Tax Reserve Certificates:	(interest rate) 25.8.62 21%
Bank :	Rate
Oct. 27, 1960 5½% Dec. 8, 1960 5% July 26, 1961 7% Oct. 5, 1961 6½%	Nov. 2, 1961 6% Mar. 8, 1962 5½% Mar. 22, 1962 5% April 26, 1962 4½%
Treasur	y Bills
July 20	Aug. 24 £3 155 4.50d% Aug. 31 £3 155 0.42d% Sept. 7 £3 145 4.55d% Sept. 14 £3 135 11.97d% Sept. 21 £3 145 0.01d%
Money	Rates
$\begin{array}{cccc} \text{Day to day} & 2\frac{7}{4} - 3\frac{7}{8}\% \\ 7 \text{ days} & 2\frac{1}{4} - 3\frac{7}{8}\% \\ \textit{Fine Trade Bills} & & & & \\ 3 \text{ months} & & & & \\ 4 \text{ months} & & & & \\ 5\frac{1}{4} - 6\% \\ 6 \text{ months} & & & & \\ 5\frac{3}{4} - 6\frac{1}{2}\% \\ \end{array}$	Bank Bills 2 months 3 months 4 months 6 months 3
Foreign E	xchanges
New York       2.80 \$         Montreal       3.01 \$         Amsterdam       10.07 \$         Brussels       139.36 \$         Copenhagen       19.38 \$	Frankfurt. 11.203 Milan 17383 Oslo 20.024 Paris 13.722 Zürich 12.113
Gilt-e	dged
Consols 4% 69 \$ Consols 2½% 45½ 45½ Convision 5½% 1974 102½ Conversion 5½% 1971 100 \$ Conversion 3½% 1969 92 \$ Conversion 3½% 1969 92 \$ Conversion 3½% 61 \$ 61 \$ 6	Funding 3% 59-69 89 lb Savings 3% 60-70 88 Savings 3% 65-75 81½ Savings 2½% 64-67 91 3½ Treas'ry 5½% 2008-12 95½ Treasury 5% 86-89 93 lb Treasury 3½% 77-80 81½ Treasury 3½% 79-81 80% Treasury 2½% 44½ Victory 4% 97 Savings 2½% 62½

# Reviews

# Costing and Efficiency in Hospitals

by Charles Montacute, LL.B., D.P.A.(LOND.), F.I.M.T.A., F.H.A. (Published for the Nuffield Provincial Hospitals Trust by the Oxford University Press, London. 25s net.)

Seldom is a new book on a difficult and complex subject as stimulating, challenging, and as readable as this one. It is a timely attempt to evaluate the value of costing in the hospital service and to consider what changes are necessary to develop the present system, introduced by the Ministry of Health in April 1957, to the end that it may function more effectively in the attainment of greater efficiency. It shows a welcome awareness of the defects of the present system both as to its scope but more particularly to the manner in which it is operated and its results used, and the author sets out his conclusions and opinions - based on 144 replies to a questionnaire and visits to sixty-four hospital authorities and twenty-two official bodies and professional associations - with great clarity.

Mr Montacute complains that the value of the present system is lessened because it is regarded more as a financial exercise than as a constructive aid to managerial efficiency. To be effective, costing cannot fail to devote a short chapter, perhaps twenty pages be regarded as a thing apart; as a technique merely to provide masses of statistics. It is an integral part of management and must be accepted as such. On the controversial subject of cost units, he advocates more emphasis being placed on 'cost per case' as against 'cost per in-patient week'. Both these units, of course, have their advantages and disadvantages for the purpose of inter-hospital comparisons.

A topic which will certainly divide chief financial officers into two camps is that of oncost or indirect expenditure. Mr Montacute is an advocate of nonreallocation of such cost. Further, he proposes the abandonment of the terms 'direct expenditure' and 'indirect expenditure' and the substitution therefor of 'treatment expenses' and 'non-treatment expenses'. It will be appreciated that the change suggested is, however, not merely a substitution of terms.

The author rightly draws attention to the relationship which should exist between costing and work study. Claims by advocates of the latter that with the development of this aid to greater efficiency the necessity for costing will disappear, show a lack of appreciation of the objectives of these two techniques. They are, in fact, complementary and the development of the one automatically leads to the development and greater potentiality of the other. Handicaps to costing in the hospital service are the absence of yardsticks by which to measure operating efficiency, and the lack of a means of quality evaluation or

appraisal. These are both extremely complex subjects, but it may be expected that standard costs may ultimately fill the first gap, and a medical 'audit', such as is now carried on in America, the second.

It is to be hoped that this book, which must be read patiently and indeed painstakingly, will lead to a clearer understanding and appreciation of hospital costing and its objectives on the part both of hospital committees and their staffs, for the fact has to be faced that hospital costing has yet to be effectively 'put over'.

# **Direct Standard Costs for Decision Making** and Control

by WILMER WRIGHT (McGraw-Hill Publishing Co Ltd, London. 54s 6d net)

Many years ago an economist pointed out that the price of an article was its cost plus a reasonable reward for the risk taken in producing it. As virtually all costs then were 'direct' no one found it necessary to point out that cost could be calculated in different ways, or that a 'reasonable reward' was an elastic concept. Cost accountants set about finding the one and business men were happy to fix the other, and the only reasons for business failure were acts of God and the moral turpitude of the proprietor. However, about eighty years ago fixed costs started to grow in size and importance, rendering the full unit cost calculation more and more inappropriate, and today no self-respecting cost accounting textbook would of five hundred, to the technique of 'direct' or marginal costing.

Mr Wilmer Wright's book belongs to that set of publications which has tried in recent years to restore some balance to the subject of cost accounting by exploring the inadequacies of full unit costing and demonstrating the more practical methods of 'direct' costing. His purpose is therefore polemic and he carries the argument a stage further by showing how 'direct' costing can be married with standard costing to provide a powerful control-system and sound accounting data upon which to base decisions and

with which to plan.

Although some cost accountants may find it hard to believe that there are others who can exist without the Byzantine intricacies of four-way overhead variance analysis, direct standard costing is used in a number of manufacturing businesses in Britain as well as in the U.S.A. Perhaps the advantage which they gain from it explains the conspiracy of silence which veils their activities. Mr Wright draws upon many years of experience as a consultant in this field to enable a wider public to share the same satisfaction.

He explains the fixed/variable analysis of costs which underlies the technique, using an effective, if simplified, little business story, and calls the former 'period' and the latter 'direct' costs. He demonstrates graphically the profit/volume relationship and introduces the useful concept of 'margin of safety' (the percentage by which sales volume can fall before a loss is incurred). The basic principles of full standard costing are reviewed succinctly and the greater part of the remainder of the book is devoted to flexible budgeting, responsibility accounting, standard setting for labour, materials and expense and direct costing reports to management. The book concludes with useful short chapters on product pricing, and other areas of decision which direct costing can serve.

It is the author's avowed intention to convince 'operating and financial executives' of the need for direct costing, and the straightforward style and slight bulk of this volume will certainly not repel them. On the other hand, Mr Wright is more concerned with selling an idea than with developing a theory. It is a good idea and its dissemination is a valuable service rendered, but much more careful theoretical analysis is required if the opposition is to be won over completely. The terminology is confusing - indirect labour can be a 'direct' cost (p. 103) - and the distinction between 'direct' and 'controllable' cost is not made in relation to responsibility centres. The acute problem of work in progress within a cost centre is not mentioned, nor is the application of the technique in businesses where the only true variables are raw materials and salesmen's commission. Difficult areas of costs, like maintenance, fringe benefits and auxiliary cost centres are given nothing like sufficient. treatment, and activity level is mentioned rather than discussed. Perhaps the book's faults arise from a failure to hit the right level of instruction, for in some places it presumes considerable knowledge of costing and in others spells out elementary procedures at great length. Nevertheless, it is well ahead of any other publications in this field presently available in Britain, and should be on every student's shelf - to be read after he has passed his Finals.

# Chorley and Tucker's Leading Cases on Mercantile Law

Fourth edition, by LORD CHORLEY, M.A., J.P., and O. C. GILES, LL.M. (Butterworth & Co (Publishers) Ltd, London. 32s 6d net.)

After having used this book one wonders how students ever manage without it. The very nature of mercantile law seems to make a good case book essential; but this is more than just a good case book, for it uses the cases to explain the law rather than contenting itself with stating the facts and leaving the reader to draw his own conclusions.

That this fourth edition of Chorley and Tucker was overdue (the previous edition was published in 1948) is demonstrated by the inclusion of eight additional leading cases. The editors have taken the opportunity of including a section on 'Trade associations and restrictive practices', and they have also improved the section on company law, which must (in the continued absence of a good case book devoted to this subject) be particularly welcome; though in

looking for the old familiars one is surprised not to find Foss v. Harbottle. It also seems dangerous to state in the subsection given to dividends that 'losses suffered during the financial year in respect of fixed capital need generally not be taken into account when determining profits'. The decisions in Lee v. Neuchatel Asphalte Co and Verner v. General & Commercial Investment Trust seem slender bases on which to make such an assertion.

Apart from this, however, and a certain disappointment at the very brief section accorded to hire-purchase, one can only express delight that an up-to-date edition of this excellent book has at last appeared.

# The Administration of Deceased Estates in South Africa

by DAVID SHRAND, M.COM., F.S.A.A., C.A.(S.A.). (Legal & Financial Publishing Co (Pty) Ltd, Cape Town. 578 6d.)

The author of this ambitious work is lecturer in executorship at the University of Cape Town and he has been assisted by an official of the Master's Office, Cape Town, and by two advocates practising in this subject in Cape Town. Following 244 pages of exposition, including, of course, the problems of estate duty, and the provisions for relief from double duty, there are appendices setting out verbatim the relevant statutes and the relevant international agreements concerning double death duties. The book is attractively printed and bound.

# A Guide to Operational Research

by Eric Duckworth, F.R.S.S., A.I.S. (Methuen & Co Ltd, London. 20s net.)

While the growing importance of operational research as a management tool is evident from the literature on different aspects of the subject which has appeared, most of the writings – for full appreciation – has tended to require more mathematical training than many executives possess. This little book by Mr Duckworth, however, is free of this particular defect. The exposition is good and the reader is taken carefully through each stage of the various techniques, such as stock control and queuing theory, in such a way that the principles are made clear.

This is not a book for those who wish to learn how to work in an O.R. team; it is intended to explain to non-mathematicians the sort of problems which O.R. can help resolve. The accountant or executive who reads this book will at least understand what his O.R. colleagues are talking about.

### Quality Control in the Office

by P. N. Wallis, F.C.A., F.S.S., A.M.B.I.M., A.C.I.S. (Current Affairs Ltd, 319 High Holborn, London WC1. 305 net.)

The last war accelerated the use of quality control as a production technique in a wide range of manufacturing industry. While two major studies have

been produced in the United States discussing the application of quality control to auditing and clerical procedures, this is the first book encountered by the reviewer to be written in the United Kingdom. The author's thesis is to appoint a controller who, on the basis of continuous sampling in all departments, from copy typists to ledger clerks, should be able to detect errors at an early stage. Readers will differ as to their understanding of the author's exposition and proposals, but at least one reader would have preferred a fuller treatment of the principles underlying quality control as applied to office work before starting on the author's proposals for different sections and functions.

# The Economics of Wages and the Distribution of Income

by D. J. ROBERTSON (Macmillan & Co Ltd, London. 21s net.)

As the title suggests, this book falls into two distinct but related parts. It is intended for the second year economics student who is not, on the whole, well provided with literature on the labour market. In fact, there is a good deal of useful information clearly expounded which will appeal to any one who is interested in what is virtually Britain's major economic problem at the present time. Professor Robertson's book deserves a wider readership than it may get.

### RECENT PUBLICATIONS

THE PREPARATION OF THE ACCOUNTS OF TRUSTEES AND LIQUIDATORS, by W. J. Fairbairn, C.A.(S.A.), F.S.A.A. 140 pp. 10×6. Card covers. R2.85. Juta & Co Ltd, Cape Town.

Teach Yourself Electronic Computers, by F. L. Westwater, O.B.E., M.A.(EDIN.), M.A.(CANTAB.), A.M.I.E.E. viii+151.  $7\frac{1}{2} \times 4\frac{1}{2}$ . 78 68 net. The English Universities Press Ltd, 102 Newgate Street, London EC1.

In-Laws and Outlaws, by C. Northcote Parkinson, ix + 175

pp.  $8\frac{1}{2} \times 5\frac{1}{2}$ . 18s net. John Murray, London.

A Guide to Stock Control, by Albert Battersby. ix+130 pp. 9×6. 18s net. Sir Isaac Pitman & Sons Ltd, London. Registration of Commercial and Licence Agreements in the Common Market, by A. K. Lewis, B.Sc., Ll.B., and J. A. Kemp, B.Sc., F.C.S., F.C.I.P.A. vii+89 pp. 10×7½. Card covers. 30s net. Postage 1s 3d extra. Butterworth & Co (Publishers) Ltd, London.

STORAGE AND CONTROL OF STOCK FOR INDUSTRY AND PUBLIC UDERTAKINGS, by A. Morrison, F.C.W.A., M.P.O.A., M.INST.P.S. xiv+261 pp. 9×6. 30s net. Sir Isaac Pitman

& Sons Ltd, London.

These books may be obtained from, or through, Gee & Co (Publishers) Limited, The City Library, 151 Strand, London WC2.

# Correspondence

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

# End of Gourley?

SIR, — With reference to the leading article in your issue of September 8th, discussing the case of *Parsons v. B.N.M. Laboratories Ltd*, I have a point to put forward which may be of interest. Might this really be a case of exemplary damages where the Court is concerned with assessing the extent to which the defendant should be punished rather than the extent to which the plaintiff should be compensated.

If this view is acceptable, it is logical enough that the defendant should not be let off lightly merely as a result of the rather fortuitous effects of the Income Tax Acts. It is consistent with the rule that decisions of higher Courts can be differentiated but not altered.

Yours faithfully,
London SW5. W. F. WEAVER.

[We do not share this view since in Gourley Lord Goddard observed that damages which have to be paid for personal injuries are not punitive. They are simply compensation, a point borne out by the fact that, where damages are payable for wrongful dismissal, the award reflects the reduction in the scale of the plaintiff's loss which results when he has secured other employment for himself – Editor.]

# **Entertainer: Formation of Company**

SIR, - I am interested in the observations of 'Certint' in your issue of September 15th. Whether the transactions are those of Y. or of the company must be a question to be decided from the facts and in particular from the available evidence.

If the arrangements between the publisher are with the company, then clearly any receipts from this source must be receipts of the company and not receipts of Y. If, on the other hand, the arrangements with the publisher are made directly with Y., receipts will be income personal to him, and this is so even if he may have paid them into the company's bank account. Although a contract between Y. and the company to the effect that Y. would not do any outside work would never be enforced against him, the contract that is of importance is the contract between the publisher and either the company or Y.

It is suggested, therefore, that for the future such contracts should be made between the company and the publisher on the basis that the company will contract to ensure that Y. provides the songs required by the publisher.

Yours faithfully,

TOPTEN.

# Is this the Limit?

SIR, - We recently received from a Government department a letter which quotes their reference as 20270000032A(135)

It's the limit – or is it? Any advance from other readers?

Yours faithfully,

LONGSUFFERING.

# STUDENTS' COURSE AT OXFORD

One-hundred-and-ninety-nine students attended the autumn residential course of the London Chartered Accountant Students' Society held at Balliol and Jesus Colleges from Thursday, September 20th to Sunday, September 23rd, under the chairmanship of Mr W. K. Wells, B.A., F.C.A.

The first speaker, Mr W. G. N. Miller, M.A., secretary of the Association of Unit Trust Managers, dealt in broad outline with unit trusts. He was followed on Friday by Mr E. P. J. Lunch, F.C.A., chief accountant of the Port of London Authority, who gave an interesting insight into the business knowledge necessary to enable the industrial accountant to be useful and effective in his function of providing for his directors, financial information and guidance in reaching decisions on problems of policy. In the afternoon Mr John Garnett, director of the Industrial Welfare Society, gave a vivid and challenging picture of the nature of the actual problems which management had

to meet and the many implications and consequences of their decisions. He emphasized the human factors present in most management decisions and the importance of giving full weight to these considerations.

On Saturday Mr J. G. Green, M.I.P.R., public relations officer of Willesden Borough Council, showed in non-technical language just how surprisingly broad are the functions of the local authorities.

On Sunday after morning service in the Chapel of Balliol College conducted by the Dean, students heard a thought-provoking talk on 'Anglo-American relations', by Professor Arthur Newell, M.A., senior lecturer of British-American Associates.

The activities of the course extended from o a.m. until midnight and after, but there was time also for guest-night dinners on Thursday and Friday evenings.

On Saturday a number of students in the course organized a race for punts and a dance to provide relaxation from a full time-table of work and discussion.



At the Oxford week-end course: Front Row (left to right) Mr M. D. P. Dinan, B.Sc. (Group leader); Miss A. Eastick (Secretariat); Lt-Com. A. C. E. Higgins, D.S.C., A.C.A., A.C.W.A., R.N. (Member of Committee); Messrs W. K. Wells, B.A., F.C.A. (Chairman of the Course); E. P. J. Lunch, F.C.A. (Lecturer); R. J. Carter, B.COM., F.C.A. (Secretary of The Chartered Accountant Students' Society of London); N. M. G. LeBlanc, D. J. V. Endicott (Members of Committee).

Second row: Messrs W. A. Honey (Group leader); D. C. Kelleher (Assistant Secretary of The Chartered Accountant Students' Society of London); J. B. D. Ireland, J. H. Crowhurst, B.A., K. S. McPherson, A. J. Shields (Group Leaders).

Third row: Messrs N. A. Lane, B.A.(ECON.), J. R. S. Boas, B.A., J. K. Wakefield, N. Gowlland, J. M. Phillips, B.A. (Group leaders).

Back row: Messrs P. J. Mortlock, B.A. (Group leader); W. J. H. Everitt, B.A. (Member of Committee); P. M. Duffell (Group leader); and a member of the Course.

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REVALUATION OF ASSETS

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# Notes and Notices

### PROFESSIONAL NOTICES

MESSRS P. B. BISHOP & Co. Chartered Accountants, announce that their address is now Finsbury Court, Finsbury Pavement, London EC2. Their telephone number is unchanged.

Messrs Midgley, Snelling & Co, Chartered Accountants, of Ibex House, Minories, London EC3, announce that as from October 1st, 1962, they have admitted into

partnership Mr E. J. WADLEY, A.C.A.

MESSRS WHINNEY, SMITH & WHINNEY and MESSRS C. HERBERT SMITH & RUSSELL announce that they have agreed to amalgamate their practices in Birmingham as from October 1st, 1962. The combined practice will be carried on in the names of Messrs Whinney, Smith & WHINNEY and MESSRS C. HERBERT SMITH & RUSSELL from their present addresses until suitable premises are available.

# **Appointments**

Mr T. Burrow, A.C.A., has been appointed special director (finance) of Willenhall Motor Radiator Co Ltd.

Mr A. W. John, O.B.E., F.C.A., finance member of the National Coal Board, has been appointed chairman of the Board's new Coal Products Division.

Sir Archibald Hope, Bt, O.B.E., D.F.C., B.A., F.C.A., has been appointed chief executive of Napier Aero

Mr A. C. Webster, c.A., has been appointed a

director of Unijute Ltd.

Mr I. R. Williams, A.C.A., and Mr M. J. Chittock, A.C.A., have been appointed group accountant and management accountant, respectively, of Hoveringham Gravels Ltd.

# BOARD OF INLAND REVENUE New Controller of Stamps

The Board of Inland Revenue have appointed Mr Alfred Albert Ernest Ellis Ettinghausen to be Controller of Stamps and Registrar of Bank Returns, with effect from October 1st, 1962, in succession to Mr D. Neish, I.S.O., who is retiring.

### SURTAX: RELIEF FOR EARNED INCOME

A useful booklet, Notes on Reliefs for Earned Income (No. 701), has been issued by The Board of Inland Revenue explaining the method of calculating the deductions in respect of earned income provided for surtax purposes by section 14 of the Finance Act, 1961, and setting out examples.

# THE DUBLIN SOCIETY OF CHARTERED **ACCOUNTANTS**

# **New President**

Mr Ronald Patrick Joseph Smyth, F.C.A., senior partner in the firm of R. P. J. Smyth & Co, Chartered Accountants, of Dublin, was elected President of The

Dublin Society of Chartered Accountants at the Society's recent annual general meet-

Educated at Presentation College, Dublin, Mr Smyth was admitted to membership of the former Society of Incorporated Accountants in 1931 and elected a fellow in 1943. He became a fellow of The Institute of Chartered Accountants in Ireland following integration.

activities Mr Smyth retains



Outside his professional Mr R. P. J. Smyth, F.C.A.

an old interest in rugby football, and is a swimming and golf enthusiast. He has also written a play which has been broadcast.

Other officers of the Society elected for the ensuing

year are as follows:

Vice-Chairman: Mr R. R. Caldwell, F.C.A.

Hon. Secretary: Mr R. Carroll, A.C.A., 7 Fitzwilliam Place, Dublin 2.

Hon. Treasurer: Mr R. I. Morrison.

Assistant Secretary and Librarian: Miss E. A. K.

Jenkins, (MOD.)B.A.

Committee: Messrs G. Buttanshaw, F.C.A., R. R. Caldwell, A.C.A., P. A. Duggan, F.C.A., R. I. Morrison, F.C.A., C. D. Shannon, F.C.A., R. P. J. Smyth, F.C.A., C. G. Walker, A.C.A., F. C. W. Winkelmann, M.A., A.C.A.

### **Annual Report**

The annual report of the Committee for the year ended April 30th, 1962, records an increase in ordinary members during the year of fifteen, bringing the total to 415; in addition, 148 new student members were enrolled, bringing the total student membership to 330.

Regular luncheon and evening meetings were held during the year and among the eminent speakers who addressed members were the Earl of Longford and Mr C. J. Haughey, F.C.A., Minister for Justice.

Meetings of the industrial and administrative group were well attended and informal luncheon meetings were held each month. The report notes with gratification that the average attendance at these meetings showed a considerable improvement. The annual

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dinner of the group was attended by the President of the Institute and guests from the Belfast and Munster

Societies were also present.

The first residential conference to be organized by the Society in the South of Ireland was held in Tramore, Co. Waterford, in October last, and was attended by forty-six members of the Dublin and Munster Societies representing both practice and industry. Two films loaned by The Accountant were shown, illustrating lives of chartered accountants in Canada, and C.P.A.s in the United States. Two papers were presented: 'Evaluation of internal control of trading concerns—The use of questionaires', by Mr A. D. Paton, C.A., of Glasgow, and 'A consideration of internal control', by Mr Kenneth Boyce, A.C.A., of Belfast. The report expresses satisfaction in that the conference set a fine example for future occasions.

Other activities of the Society during the year included the annual golf meeting held at the Grange Golf Club and the annual dance at The Gresham Hotel

attended by over 450 members and guests.

# THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

### Next Week's Meetings

The first London meetings of the autumn lecture session of The Chartered Accountant Students' Society of London will be held during next week.

Programmes have already been posted to members, and during the session detailed announcements of the activities during the following weeks will appear in *The Accountant*.

Monday, 5.30 p.m. at the Institute, Moorgate Place, EC2.
Lecture on '400,000 limited companies', by Mr W. B.
Langford, M.B.E. (Registrar of Joint Stock Companies).
Chairman: Mr J. A. Jackson, F.C.A. (Vice-President of the Students' Society).

Tuesday, 5.30 p.m. at the Institute. Opening lecture for Mechanized Accounting Course, by Mr Dudley W. Hooper, M.A., F.C.A. (chief organizing accountant, National Coal Board).

6 p.m. at The Students' Club, 41 Beak Street, Wr. "The Punters' monthly meeting.

Wednesday, 7.15 p.m. at Reading: lecture on 'Income tax - personal computations', by Mr R. B. Moss, F.C.A.

Thursday, 6.15 p.m. at The Students' Club, 'The Taverners' annual general meeting.

Friday, 5.15 p.m. at the Institute. Introductory course lecture on 'How to study', by Mr R. J. Carter, B.COM., F.C.A. (Secretary of the Students' Society).

Students are reminded that the Library and Study Room at Spencer House, South Place, EC2, are open on Mondays to Fridays from 9.30 a.m. to 5.30 p.m. The Study Room is available in the evening by prior arrangement.

# THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting of the Accountants' Christian Fellowship for Bible reading and prayer will be held at 1 p.m. on Monday next, October 1st, in the vestry of St Mary Woolnoth Church, King William Street, London EC3. The scripture for reading and thought will be 1 Peter, Chapter 2, verses 7 to 10.

### SEVENTY-FIVE YEARS AGO

From The Accountant of October 1st, 1887

From a leading article

The Accounts of the Corporation of London

As it is of course in matters of form that the accounts appear to us to be in some respects susceptible of improvement, a few words of explanation as to the manner in which they are at present made up seem desirable. The body of the accounts is prefaced by what is termed "an Abstract Account of the Chamberlain in account with the Corporation of London, in respect of the produce and expenditure of the City's Estate." This abstract shows very succinctly and clearly the amount received and paid under various heads during the year, the respective folios on which the details making up the totals will be found, being given to facilitate reference. The detailed account of receipts and expenditure, (being purely and strictly a cash account) follows. Lastly is given what is described as "a balance statement of the liabilities and assets of the Corporation on the 31st December, 1886 (exclusive of the value of the Corporation Estates)."

As an abstract of cash received and paid, the first statement leaves nothing to be desired, either as to form, wording, or its position in the volume. It has always seemed to us the preferable place in these matters to let abstracts and summaries precede rather than follow the detailed statements.

An ordinary ratepayer or business man is much more likely to understand accounts of this nature if at the outset he sees a clear and concise summary of the figures, than if he is at once met (as he would be in this case) with eighty folios of detailed matter, a casual reading of which would be more likely to confuse than to enlighten him. . . .

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# ACCOUNTAN

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### London Students' Column

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# Action Now?

THE recent buoyant state of the gilt-edged market is in marked contrast with the flagging equity market, not least since a number of leading companies have reported interim results rather better than expected. It is clear, however, that a reduction of the Bank's official discount rate cannot now long be deferred; a view fortified just recently by the release of part of the clearing banks' special deposits with the Bank of England. By itself this increase in the clearing banks' liquid position will not exert any special stimulus on the economy; the banks are currently well able to meet any requests for loans.

The trouble is that the low level of current loan requests reflects the uncertainty evident among the business community about the present deflationary phase through which the economy is passing. The City columns of *The Times* and *The Guardian* have both stressed the need for an expansionist policy if the present stagnation of industrial output is not to be intensified. The decline in capital investment within the private sector makes all too clear the absence of optimism in many industries about the immediate future, just as the small but significant increase in unemployment must be a matter of concern for the Government. This deflationary situation is not peculiar to the British economy, American business has not expanded according to expectations, nor is there so much talk nowadays of the West German economic miracle as full employment dominates the Ruhr.

It would not be difficult to stimulate the economy with new injections of consumer spending; the 10 per cent surcharge could be removed, purchase tax reduced, hire-purchase terms modified, investment allowances increased. Mr Maudling may make several of these changes soon. It would be idle to pretend, however, that such a stimulus to the United Kingdom economy would not generate the seeds of renewed cost-push inflation, but there is a good deal more slack in the economy than for many years past for such increases in spending to be matched by higher production. Nevertheless, the risks inherent in such a policy for the United Kingdom balance of payments remain.

It is almost three months since Mr Maudling became Chancellor of the Exchequer and the time has now come for a change in the deflationary policy initiated by his predecessor in office more than a year ago. Further, the growing expectation of tax reductions will tend to depress current sales of consumer durables and motor-cars at home; this fact alone strengthens the clear need for an early declaration of policy from the Chancellor. Unfortunately, it is not only the timing of the announcement that is difficult, it is the content of the announcement.

# Short-term Gains — XIII

# COMPANY REORGANIZATIONS

AST week we moved from losses on shares to the special problems associated with bonus and rights issues, and the elaborate provisions in paragraph 10 of the Ninth Schedule to the Finance Act, 1962, designed to solve them. This paragraph is directed to protecting the holder of shares from being treated as acquiring bonus or rights shares at the date of actual acquisition, instead of at the date he acquired the original shares, which in the Government's view is fairer. The new holding, represented by the bonus and rights shares (or debentures), together with such of the original shares as remain, is treated as being the same asset as the original shares. If he sells part of the new holding within the statutory time limit, measured from the date of acquisition of the original holding, then for Case VII purposes it is necessary to compute the 'cost' of the part sold. For this purpose, paragraph 10 (5) directs that the total original cost is to be apportioned by reference to market value at the date of disposal.

# Example

X. buys 200 ordinary shares for £400. There are bonus and rights issues, involving the payment of another £100 and leaving X. the owner of 100 'A' shares and 300 'B' shares at a total cost of £500. He sells 50 'A' shares at the market value of £3, the 'B' shares being then worth £1 10s each. Total market value at date of sale is:

					10
100 'A' at £3	••	• •	• •	• •	300
300 'B' at £1 10s	• •	• •	• •	• •	450

The proportion of 50 'A' shares is thus  $-\frac{150}{750}$  1/5th. The assumed cost of the 50 'A' shares sold is therefore one-fifth of £500, i.e. £100. The Case VII profit, before expenses, is therefore £50 (£150—£100)

Paragraph 10 (6) deals with provisional allotments of bonus or rights shares. As originally drawn, it reads as follows: '(6) Where a person is provisionally allotted any shares in or debentures of a company, and disposes of the rights to them without accepting the allotment, this paragraph (i.e. paragraph 10) shall apply as if the allotment had not been provisional and the rights disposed of had accordingly been shares in or debentures of the company, and as if the consideration to be given for the shares or debentures were a liability attaching to the rights.'

Normally, of course, the allotment of pure bonus shares is not made provisionally. Rights issues are arranged on the footing that the rights will be of value, but in the event the shares may have fallen so low by the time the provisional allotment is made that the rights are worthless. Now paragraph 31 (c) of the White Paper said:

'(c) If a person buys "rights" and sells them, or the shares taken up, within six months, this is a transaction of acquisition and disposal involving Case VII liability."

THE ECONOMIC SECRETARY TO THE TREASURY introduced an amendment and confessed to the House of Commons at the committee stage that the drafting of paragraph 10 (6) was inadequate. It was completely recast to deal with two anomalies arising from the original draft. The statement in the White Paper was wrong, because if a taxpayer bought rights, then exercised them (i.e. took up the shares) and then sold them, the six months would not have begun to run until he took up the shares. The amendment cured this by providing that the rights are to be treated as actual shares or debentures. Another anomaly which the amendment deals with is the case of a person who receives a provisional allotment in right of his own shares, and then sells the old shares without selling the rights. If he did this after taking up the rights, then the rules as to apportionment in paragraph 10 (5) would apply. But the original Bill was so worded that if he sold the old shares before exercising the rights, the rule about apportionment did not apply; hence the amendment. The rights under the provisional allotment are treated as shares or debentures, and

£750

<sup>1</sup> Cmnd. 7170.

any consideration to be given for those shares or debentures in exercise of the rights is treated as a liability attaching to these notional shares.

The redemption of 'redeemable share capital', is not a reduction of capital for the purposes of paragraph 10. If such share capital is redeemed (otherwise than by the issue of shares or debentures, and otherwise than in a liquidation) the shareholder is to be treated as disposing of it at the time of redemption (paragraph 10 (7)). In a sense all share capital is redeemable, but presumably the draftsman is concerned here with what are usually known as redeemable preference shares, i.e. shares which can be redeemed without application to the Court.

If the ordinary shareholder in companies, public or private, is to be protected from Case VII liability wherever the company has a reorganization or reduction, then there is perhaps still more reason to protect the holder of securities, particularly Government securities, from the consequences of conversion. Perhaps exhausted by the labour of drafting paragraph 10, the draftsman provides laconically in paragraph 11 (1) that the earlier paragraph is to apply to the conversion of securities as it applies to the reorganization or reduction of a company's share capital 'wit any necessary adaptations'. One can foresee a good deal of argument as to what are proper adaptations, and whether they are necessary. Neither 'conversion' nor 'security' is precisely defined, but there are directions in paragraph 10 (3) as to what these words 'include'. Thus 'security' includes any loan stock or similar security of any Government or public or local authority anywhere, or of any company. It will be recalled that under section 16 (1) 'company' includes a body corporate. Perhaps the most delectable part of the definition is the statement at the end that a security is a security 'whether secured or unsecured'. 'Security' is an unfortunate choice of words in these circumstances and is no doubt a result of the mental confusion that exists as to the precise difference between (i) a secured obligation as a contractual chose in action, (ii) a piece of property of any kind which can be used as security for a debt (by giving a mortgage or charge on it), and (iii) a security in the sense of the piece of paper which is either negotiatiable or is evidence of some right to money. 'Conversion of securities' includes:

- (i) a conversion of securities of a company into shares in the company; and
- (ii) a conversion at the option of the holder as an alternative to redemption for cash.

It will be recalled that under paragraph 10 (4), any capital distribution is to be treated as the proceeds of a disposition of an interest in the shares. This principle is excluded from a conversion under paragraph 11 if it satisfies the conditions laid down by paragraph 11 (2). Instead, the distribution is to be treated as having reduced the consideration given for the original securities. The condition to be satisfied is that the conversion must be on an exchange effected under an arrangement carried out under section 2 of the National Loans Act, 1939; additional consideration being given to the holder of the converted securities.

Paragraph 12 is directed to giving paragraph 10 protection to a shareholder where shares or debentures in company A. are exchanged for an issue of shares or debentures in company B. (paragraph 12 (1)). The paragraph is headed 'company amalgamations' but the word 'amalgamation' does not occur in it. However, paragraph 12 does not apply to an exchange as defined above unless the exchange is part of what we may call an exchange amalgamations, i.e. where one of the conditions laid down in paragraph 12 (2) is satisfied. We may enumerate these alternative conditions as follows:

(i) company B. has control of company A.; or (ii) company B. will have control of company A.

in consequence of 'the' exchange;

(iii) company B. issues the exchange shares or debentures in exchange for *shares* as the result of a general offer made to:

(a) members of company A.; or

(b) any class of them; the terms of the offer (when first made) being such that if they were satisfied then company B. would have control of company A.

The offer at (iii) is none the less general if it is made with exceptions for persons 'connected with' company B. We have already dealt with the definition of 'control', which appears in section 16 (1) of the Finance Act, 1962. Condition (ii) is curious; it refers to the exchange made by the person sought to be taxed under Case VII. But his holding may be too small to have any such consequence as is required by (iii); only by lumping his exchange with the exchanges of his fellow shareholders does company B. gain control.

This seems to be another defect in drafting, and it is to be hoped that the Revenue will not take the point. Perhaps it would have been better not to introduce paragraph 12 at all, rather than to divide into sheep and goats, on not very clear principles, the people who exchange their shares for other shares.

Paragraph 12 (1) directs that paragraph 10 shall apply to an exchange amalgamation 'with any

necessary adaptations as if the two companies were the same company and the exchange were a reorganization of shares capital'. Here again these are signs of mental exhaustion in the draftsman. Since an exchange amalgamation concerning two different companies is a very different thing from a reorganization of the capital of a single company, one can foresee numerous disputes as to what adaptations are necessary or even suitable.

# Setting-up Business in Western Germany

# TAX CONSIDERÁTIONS

by R. J. NIEHUS, Wirtschaftsprüfer, Düsseldorf

THE establishment of the European Common Market with the United Kingdom negotiating for association or perhaps full membership, the Common Market countries are becoming more and more attractive for British companies.

One of the important factors to be evaluated before making a decision as to where to set up business in the Common Market area is the incidence of taxation. Accordingly, what follows is an outline of the taxes that become payable upon the formation of a company or a branch in Western Germany.

# Company v. Branch

The formation of a company involves the investment in Western Germany of a fixed amount of capital which cannot be remitted to shareholders prior to liquidation of the company. The company's liability is limited to this capital and - at least in principle – cannot be carried through to the shareholders. The company pays 51 per cent on profits retained and 15 per cent on profits distributed. In addition, a capital withholding tax has to be paid on the gross amount of dividends which, according to section VI of the British-German Double Taxation Agreement, in case of a British shareholding company is 15 per cent as compared to 25 per cent regularly payable by a German shareholder. According to section XVI of the agreement, the British recipient shareis entitled to tax relief comprising the capital withholding tax and an equitable part of the tax on income paid by the company on the profits distributed to the British shareholder. The loss carry-over is available for five years.

A branch has no fixed or even minimum capital. Its liabilities are those of the foreign parent company. This means that a creditor of the branch, after having exhausted all legal remedies in Germany in respect of a lack of assets there, may take the matter to the United Kirage m and sue the parent company.

In the case of a branch, no split income tax rate is available, all profits being subject to a rate of 49 per cent, while the capital withholding tax does not become due on profits remitted to England. A branch is required to maintain its own set of books in Germany and is entitled to a loss carry-over for five years, as is the case with a company.

It would appear from these brief characteristics that, at least as far as taxation is concerned, a foreign subsidiary company has a decided advantage over a branch. However, there is one possibility which may make it advisable first to form a branch. Experience proves that it is not uncommon for a foreign establishment to sustain losses in Germany during the first years, and in some cases it has been impossible to absorb the losses through intervening profits during that period. If this is contemplated it might well prove to be advantageous, provided it is permitted by the legislation of the foreign country, to have the loss of the German branch absorbed by the parent company. After the branch has become established and profitable, then it could be transformed

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into a separate legal entity in order to enable it to benefit from the tax advantages outlined above. In this connection it may be noted that to the extent to which capital transaction tax has been paid on the assets transferred on formation of the branch, no further tax on them becomes due on incorporation.

Authority by the foreign exchange control agency to set up business in Germany is no longer required, either in case of a company or for the opening of a branch establishment. The articles of association must be attested before a notary public as is also required for the registration application of the branch.

# **Types of Company**

There are two types of company in Germany, AG (Aktiengesellschaft) and GmbH (Gesellschaft mit beschränkter Haftung). The two types are dealt with in turn below.

# (1) AG (Aktiengesellschaft)

This is the appropriate form if a relatively large amount of capital is required, because the AG is the only German corporation authorized to have its stock listed on the stock exchange and to raise capital by issuing shares to the general public.

The main reasons for the preference which the GmbH has enjoyed over an AG are that there is less necessary formality regarding formation and administration, and that publication of financial statements (balance sheet and statement of income) is not obligatory as is the case with an AG. An AG requires a board of supervisors, onethird of which must be labour representatives, whereas in the case of a GmbH such a board is only necessary if the company employs more than 500 people.

An AG is obliged to publish an annual report to stockholders, in which it must comment upon unusual or important items appearing in the balance sheet and profit and loss statement, and in which it has also to describe briefly the development of the company's business during the past year.

The minimum capital stock of an AG is Dm.100,000, of which 25 per cent must be paid in before incorporation. In practice, the capital of German AGs, however, invariably is far higher.

c. The AG acts through the Vorstand (board of managers); the Aufsichtsrat (board of supervisors); and the Generalversammlung (stockholders' meeting).

The Vorstand directs the day-to-day business of the company, while the Aufsichtsrat is elected

by the shareholders to exercise a direct supervisory function over the Vorstand. The Vorstand together with the Aufsichtsrat is responsible for preparing the annual financial statements which thus become final and cannot be changed by a vote of the stockholders. The stockholders' meeting may vote only on the question of the distribution of the amount of profit as shown in the balance sheet. As distinct from many foreign corporate laws, a member of the Aufsichtsrat may not serve on the board of managers or vice versa. There must always be a clear distinction of duties and responsibilities between the two. One-third of the Aufsichtsrat must be representatives of the company's employees, and elected by the employees. The financial statements of the corporation must be audited by a German Wirtschaftsprüfer and be published in the Federal gazette.

For the formation of an AG, five 'incorporators' are required, who may be either companies or individuals. The share capital is divided into shares, the minimum amount of each unit being Dm.100.00; each share unit one vote unless ruled differently in the articles of association. All shares must be subscribed for prior to formation of the company. Whereas shareholders are not personally liable for the debts of the corporation, the 'incorporators' have a personal liability until all shares, which may be bearer shares or registered shares, have been paid up in full.

Generally speaking, the incorporation proceedings in the case of an AG are more complicated than those for a GmbH. The 'incorporators' have to draw up a separate report on the incorporation proceedings. The incorporation process as such must be examined by the Vorstand and the Aufsichtsrat and must also be audited by a Wirtschaftsprüfer. Special rules apply if the share capital has not been paid for in cash but in other assets, in which case the Wirtschaftsprüfer must certify as to the correct valuation of these shares.

# (2) GmbH – Gesellschaft mit beschränkter Haftung

The GmbH is the second form of separate legal entity available for commercial purposes in Germany, the shareholders of which cease to be liable to the creditors of the company as soon as they have paid up their capital subscription. In prior years, an AG was considered to be more 'refined' than a GmbH; in recent years, however, even the big and well-known firms have almost all adopted this form.

The legal structure of a GmbH is simpler than

that of an AG. The GmbH acts through its manager(s) (Geschäftsführer) and shareholders' meeting which approves the financial statements and decides on the distribution of profits. The meeting also discharges the managers from their responsibilities and obligations vis-à-vis third parties. The articles of association may stipulate that certain acts of the managers shall require the prior approval of the shareholders.

A board of supervisors (Aufsichtsrat) is not mandatory in case of a GmbH. As previously stated, however, such a board must be formed if the total number of employees exceeds 500, in which case again one-third of the seats on the board must be filled by labour representatives.

As is the case with an AG, all shareholders of a GmbH may be foreigners and may exclusively reside outside Germany. Also all managers of either an AG or a GmbH may reside outside Germany, though in practice at least one of them lives in Germany in order to ensure the proper functioning of the company. The nationality of general managers is of no consequence.

For the formation of a GmbH, only two 'incorporators' are required, both of whom may be represented by a proxy before a German notary public. After the company has been formed, all shares may be held by one shareholder. The minimum capital of a GmbH is Dm.200,000, one-fourth of which must be paid up prior to incorporation. No share certificates are issued in the case of a GmbH, accordingly, the GmbH is the appropriate form if the number of shareholders shall remain relatively small and if the transfer of shares is to be restricted from the start.

# **Branches**

A branch establishment requires a permanent address, a name under which to do business, and a manager. As in the case of a company, a branch must be registered in the public register of companies. The registration application must be signed by a person authorized to represent the foreign parent company vis-à-vis third parties.

The registration procedure for a branch sometimes is more complicated than that of a company. The judge at the registry Court, in the interests of the future creditors of the branch, must make sure that the foreign parent company does actually exist as such and that it has a certain amount of liable capital. Accordingly, it is necessary to have the charter and/or the articles of association of the foreign company translated into German. This may sound easier than it really is; in practice, this always involves additional requests

from the judge for elucidation of certain passages.

The manager of the branch, provided internal rules do not forbid this, may appoint *Prokuristen* (persons with full power of attorney to represent the branch in respect of third parties). The authority of these *Prokuristen* may be limited to the area of the branch, i.e. Germany, or also to other countries where either the branch and/or the parent company are doing business.

# **Incorporation Tax**

The incorporation tax amounts to 2.5 per cent and is computed on the value of the assets contributed by the shareholders. If the shares are paid for in cash, it goes without saying that the value of the assets is identical with the amount of cash paid for those shares. The assessment may become somewhat more difficult, however, if the consideration is not in cash but in other assets (machinery, stocks, patents and trade-marks, land and buildings). The law concerning incorporation or capital transaction tax rules that the tax authorities must levy this tax on the actual value of the assets paid as a consideration for the shares, and not on the nominal amount of shares if agreed upon between shareholders. Especially in cases where there may be one shareholder only, the nominal amount of capital may be definitely lower than the current value of the respective

Whereas the judge at the registry Court is concerned only with the fact that the assets must at least be equal to the nominal amount of the latter, the tax authorities naturally want to levy the tax on the real value which, as explained above, may be higher. In case of doubt, especially if trade-marks, patents and other intangibles are involved, it may be wise to appoint an official valuer. His opinion may then serve the tax authorities as a basis for the assessment of capital transaction tax.

# Substitute Capital

In order to catch up with investors who have tried in the past to avoid part of the incorporation tax of 2.5 per cent by fixing the nominal capital of a company lower than was actually required from a standpoint of sound financing, with the consequence that subsequent financing of the company had to be made through loans, the law provides that all loans, directly or indirectly extended by shareholders and which may be regarded as 'substitute capital', shall also be subject to a capital transaction tax of 2.5 per cent.

The term 'substitute capital' allows of many-

interpretations, and the whole relevant clause of the law is an open invitation to negotiate with the tax authorities on its meaning and exact application. In practice, the tax authorities in such a case always try to invoke the fiction of a 'prudent and sound business man'. They argue that a prudent and conservative business man would not have financed the company through loans but rather through capital; therefore, the loans in question must be regarded as substitute capital and consequently subjected to a 2.5 per cent capital transaction tax. As a 'rule of thumb', they have adopted the ruling that the aforementioned 'prudent and conservative business man' would finance his fixed assets and a part of his inventories through shareholding capital so as to avoid the danger that the lenders may suddenly recall their money and leave his business without a firm financial basis. Actually, this ruling was developed by the Supreme Tax Court before the war and has been upheld ever since. There have been recent attempts to have section 2, subsection 5 of the capital transaction tax law, which deals with the 'substitute capital' problem, ruled null and void by the Supreme Constitutional Court on the grounds that it was too loosely worded and too flexible to give the taxpayer the support he is entitled to under the constitution vis-à-vis the authorities; all these attempts so far have failed Naturally, there are many cases in practice where it can easily be proved that the aforementioned rule, according to which the capital of the company must at least be equal to the book value of fixed assets plus one-third of inventories, is entirely unrealistic. It would be beyond the scope of this article to discuss all the details in this connection, however, and as stated above, there is always the possibility of negotiating with the tax authorities as to the portion of shareholders' loans which may be regarded as 'substitute capital'.

# **Branches and Capital Transaction Tax**

As regards the assessment of a branch for capital transaction tax, there is a decided difference. The capital transaction tax law stipulates that all capital remitted from abroad, whether in the form of cash or in kind, is subject to tax, regardless of whether used for the acquisition of fixed or of current assets. However, merchandise actually sold by the foreign company to the domestic branch at regular credit terms does not come under this rule.

In general, it would appear that as far as capital transaction tax is concerned, a branch might well be worse off than a company. However, following negotiations mainly with Swiss and United States representatives, it has been ruled that branches formed in Germany by companies of certain foreign countries, including Great Britain, are treated as though they were separate legal entities regarding capital transaction tax. In other words, capital remitted from Great Britain to the branch for the acquisition of current assets is not subject to capital transaction tax of 2.5 per cent, provided the long-term capital placed here already covers fixed assets and one-third of current assets of the branch.

# Shares Taken Over by the Trustees

Sometimes a foreign investor decides not to appear as a shareholder at all. A trustee subscribes to the shares and holds these for the foreign investor. It is perfectly in order under German law to bind the trustee by a voting agreement so that at a shareholders' meeting he can cast his votes only as directed by the foreign investor.

As far as the tax authorities are concerned, however, it is always advisable to disclose to them the trusteeship agreement. Consequently, it is not the trustee but the real investor who is liable for the corporation tax. Similarly, it is the real owner for whom the capital withholding tax is being withheld and who has to pay annually the net assets tax on the value of the shares.

### **Expenses**

# (I) Notary's fees

The notary public is authorized to charge the following fees as listed in his official rate tables:

Fee for		Fee for		
registratio	n n	otarization	C	apital
applicatio	n .	of articles	of c	ompany
Deutschma	rks De	eutschmarks	Deut	schmark <b>s</b>
212.50		850.00	25	00.000,0
400.00		1,600.00	50	00.000,0
587.50		2,350.00	75	00.000.00
775.00		3,100.00	1,00	00.000.00
775.00	I	16,000.00	2,00	0,000.00

Plus turnover tax of 4 per cent, clerical charges, and postage.

# (2) Court fees

For the registration of the articles, the Court will charge approximately the following fees:

Capital of company	Fee		
Deutschmarks 250,000.00 500,000.00 750,000.00 1,000,000.00	Deutschmarks 425.00 800.00 1,175.00 1,600.00		
		2,000,000.00	3,050.00

Plus approximately Dm.50.00 to Dm.100.00 for publication in the local newspaper as named by the Court.

# Auditing Magnetic Tape Systems – II

# OPERATING PROBLEMS

by H. LA COSTA, F.C.A.

HE first part of this article considered the the reasons for the increasing specification of electronic data processing (E.D.P.) systems with facilities for the use of magnetic tape. This trend raises a number of new problems for the auditor. The problem of security was discussed in the previous part; other operating problems are considered in this concluding part.

# **Direct-input Equipment**

One link in the chain of mechanized data handling is provided by the direct-input equipment. The principal operation (usually a receipting operation at a cash desk) now generates as a by-product a magnetic tape, punched tape or even a printed roll capable of being read by character-recognition equipment. The prime requirement of the equipment is to provide the customer with a correct receipt of the transaction. Proceeding from this requirement, various hardware devices are incorporated to prevent secret and illegal use of the equipment, including suppression of at minimum expense. individual transactions. The subsequent trans cription of data for magnetic tape operation requires the minimum of human intervention. For example, part of the data (customer number, stock record, etc.) can be picked up automatically at the point of recording from a token also prepared automatically by centralized equipment.

Incorporation of all data on a single tape or roll eliminates possibility of loss of individual records. The chance of other types of error is also minimized by the small number and simplicity of the remaining operational requirements.

From the viewpoint of the auditor, the centralization of the accountancy function is not an unmixed blessing. In general, it facilitates a division of effort and responsibility between outlying operating centres, where the source data are created, and a centralized accounting department, where all further processing takes place. This process is assisted by the speed and economy of opération inherent in the use of magnetic tape. The traditional objection that centralization injures local service to the customer loses much of its force when viewed in the light of the benefits to be derived from the ability to apply the power and economy of a central magnetic tape

installation to all the work from peripheral stations. Customer service nearly always benefits from increases in economy and accuracy of data presented to management. Very often the local service is speedier too, even when taking into account the longer lines of communication.

# **Strengthening Internal Control**

As noted in the first part of this article, magnetic tape provides the cheapest means of holding data on a large scale. The low cost of storing information (about £20 for fifteen million characters) provides the auditor with the opportunity to recommend procedures to strengthen internal control. Information can now be freely duplicated, even at the expense of logical redundancies being thereby introduced, without having to worry too much about cost, since this will anyway be very low. It is therefore possible to complete input data from information in magnetic tape storage,

An example from an invoicing procedure will make this point clear. In the particular application, a customer master record is normally created. Considerations of speed and cost of input have, in the past, curtailed the information carried on each customer to the minimum possible. With magnetic tape, these considerations do not have the same strength. It is now reasonable to hold for each customer, as part of his master record, a price schedule relating to the goods in which he deals together with a record of volume of trading in these goods in the past. External pricing would be eliminated, and to the accuracy of machine pricing is added the possibility of widespread feasibility checks on, say, quantities ordered in the light of past experience. Only transactions failing these feasibility checks would require further scrutiny.

In all the foregoing techniques, additional length of computer programme is involved which, but for the use of magnetic tape as a backing store, would be prohibitively costly. In particular, without magnetic tape, the additional section of the programme would compete with the main programme for the use of the core store,

both for the storage and working areas.

# **Batch-processing**

For all but the most extensive core storage machines, the need for the computer installation to perform additional functions (such as print-out) leads inevitably to fragmentation of runs, unless batch-processing can be achieved through the provision of magnetic tape. Batch-processing is a technique for treating the entire batch of programmes for the day as a unit. Breaking down one computer set-up, setting up afresh for a new programme, and checking test data manually, are therefore virtually eliminated. Since the transition from programme to programme is largely automatic, immunity from operating errors can effectively be guaranteed. Significant savings in operating cost are also achieved, since more work can be done in less time. Savings are particularly marked if many files are stored on each reel, since the tedious process of cycling up and identifying the correct file, or programme, is largely eliminated.

Computers with magnetic tape facilities essentially imply a serial approach to E.D.P. problems. Information to be processed is first sorted to an order corresponding to that of the master information against which it is to be matched. Under this system, the master information is accessible throughout the entire run. The speed of the process reduces the time between a transaction taking place and the updating of the relevant file. For obvious reasons, the shortness of this delay improves the change of detecting errors and fraud. In addition, the need to review the master information anyway at frequent intervals permits the imposition of sophisticated random and feasibility checks without adding greatly to the procedure requirements.

Many of the techniques commonly employed by the computer programmes can also be made use of by the auditor. Typical are dumping (printing out the contents of the stores – either completely or dynamically) and tracing (following the path of an operand through the various programme steps by printing out every change of sequence). The essential point is to check that the necessary programme steps to initiate either or both of these procedures are readily available. Again, use of these techniques is greatly facilitated by the availability of magnetic tape.

Restarting is another area in which the auditor has much to gain from modern programming practice. A restart is the automatic cycling back to a fixed point in the programme in case of failure. Where the programme incorporates provision for restarts, the auditor need have little

compunction about introducing data at random, which he knows will fail some existing limit or editing check and thereby initiate a restart. The object is to test the continued effectiveness of these checks. Considerations of derailing the programme (otherwise an expensive luxury) need not concern the auditor armed with an effective restart procedure.

# **Tape Handling**

Advantages of speed of magnetic tape cannot always be fully exploited due to loss of time caused by the need to rewind, although current research may soon eliminate this snag. For the present, where the equipment can read tape backwards, the auditor should give serious consideration to the incorporation of some of his test routines at this stage. Most equipment rewinds faster than it reads backwards. Accepting the need for the auditing routines involved, it will generally be more economical to rewind and to read simultaneously during a single - albeit slower - run than to incur the penalty of two rewind operations. The exact balance of advantage will, of course, vary with the individual circumstances.

The conventional flowchart for magnetic tape operation depicts a two-tape input (one old master tape and one current transaction tape) and a one-tape output (new updated master tape). It is not commonly appreciated that retention intact of the information on the old master tape (i.e. as it was before the current run) has important implications for both auditors and operators.

First of all, retention of the 'father' and 'son' hierarchy of tapes effectively guards against possible malfunctioning of the equipment. Unless the 'father' tape is available, re-runs may be difficult, if not impossible. Secondly, restart routines can be accommodated by back-spacing (or partly rewinding) both 'father' and 'son' tapes. The ability to take additional copies of the tape, even during an operational run, is limited only by the availability of extra tape decks. The advantages of this facility to the auditor are too obvious to need further emphasis. It is difficult to see how similar features could be achieved with any system not incorporating provision for magnetic tapes, save at the cost of voluminous extra programming, additional specialized runs (which fail some of the basic requirements of auditing), or the provision of relatively expensive duplicating equipment.

It is costly to immobilize many reels of magnetic

tape for longer than absolutely necessary. The capital tied up in magnetic tapes can be minimized by rotating the reels in use. To avoid inadvertent erasure of important data, it is essential that a careful check be maintained at all times on the hierarchies in use and that a logical system of application of successive reels be rigidly applied.

### Conclusion

Like all new technical development, magnetic tape presents a challenge to those striving to use it to best advantage. Magnetic tape makes many sophisticated techniques economic for the first time. Indeed, the provision of facilities for magnetic tape operation opens up new worlds for the systems designer and for the accountant. Not unexpectedly, this sophistication imposes the

need for large and complicated equipment. Despite obvious disadvantages, this very complexity can ease the job of the auditor in that it complicates the efforts of fraudulent employees to cover up any defalcations to such an extent that they become almost impossible to carry out without detection.

The great versatility offered by magnetic tape facilities faces the auditor with an equally wide range of points to guard. At the same time, magnetic tape equipment offers unrivalled possibilities for the incorporation of a wide range of checks and safeguards at low cost. Yet, in the last resort, the successful application and auditing of this new medium rely on common sense, sagacity and capacity for taking pains over detail which still remain the hall-mark of the good auditor.

# Weekly Notes

# RATE-DEFICIENCY GRANTS

about 1,200 of the 1,530 local authorities in England and Wales because their resources, as measured in terms of the per capita penny rate product, are below the national average. The effect of this system of grant aid is that the Exchequer stands in as a ratepayer to all authorities with below average resources, to the extent necessary to bring them up to the average. This rate-deficiency grant, introduced in 1948 as the Exchequer Equalization Grant, has since undergone minor changes as the result of periodic reviews by the Minister of Local Government and representatives of the local authorities.

The latest review which has now to be considered, by the local authorities has recommended further modifications<sup>1</sup>. In particular, the mode of payment is to be simplified. At present, on the basis of a preliminary estimate of expenditure for the coming financial year, a 90 per cent payment is made. About six months later a further review of current outlays is made and this enables a further payment to be made which usually offsets the deficiency arising from the first payment. Some time later when the audited and certified expenditure of the local authorities is known, a final assessment of the grant position is made. The Working Party proposes that the first calculation should be accompanied by a full grant payment at

the beginning of the financial year; thereafter no further calculation should be made until the final audited accounts are available. This would avoid both over- and under-payments with the need for recovery at a later date. From the viewpoint of the local authorities this arrangement would save considerable work.

Among other points made in the report were the rejection of a plea by the health and pleasure resorts VER £100 million annually is distributed to that in estimating the rateable value per head, their summer populations rather than the resident population should be used.

# MORE OFFICIAL FINANCIAL STATISTICS

REVIEW of the work done so far on financial Astatistics for this country is given in the latest issue of Economic Trends.1

The intention is to provide annual returns of the financial assets and liabilities (including a classification of public sector debt), quarterly returns of purchases and sales of various kinds of financial assets (including a classification by maturity of public sector debt), and monthly returns for the banking sector and for certain short-term indicators. A wide range of institutions and bodies are to be covered by the new figures.

The new statistics follow from recommendations made in the Radcliffe report. The new figures are being integrated into the comprehensive national income accounts already published. They will be linked together through the 'Savings' headings in the national incomes figures. Each sector of industry and public activity in the national income figure has a residual item which is carried forward into a summary account called 'The Financing of Investment' as in Table 48 in the National Income Blue Book, 1962. The new financial statistics will be used to analyse the

<sup>&</sup>lt;sup>1</sup> Report of the Working Party appointed to investigate the working of the rate deficiency grants in England and Wales. H.M.S.O. Price 1s 3d.

<sup>1</sup> H.M.S.O. Price 5s.

corresponding fixed capital formation and the value of physical increase in stocks shown in this account.

The sectors to be used for the classification of assets cover three headings in the public sector, a company sector with three sub-headings and the personal sector which will include unincorporated businesses. The basic classification of financial assets will be under twelve headings ranging from cash to mortgages.

# APPRECIATING THE COST ACCOUNTANT

THE latest in the Take Home Book series in the Employee-information Subscription Service<sup>1</sup> is called *Counting the Cost*. Written by an accountant, it is a survey in simple language for the layman of the place and importance of the cost accountant in

industry.

This offers a simple, readable account of the importance of cost control in industry. Like all oversimplifications it errs, if anything, on the side of readability and, therefore, some of its statements may fall a little bluntly on professional ears. Such a one is: 'Should demand decrease, the business's expensive machinery . . . is not fully occupied - not earning its cost'. The pamphlet also gets off to a slightly indeterminate start by talking about the personnel manager and the chief engineer rather than the cost accountant. Both these turn up again later in the pamphlet also in a slightly disconcerting way, as though the author is trying to differentiate the func tions of these in the lay reader's mind. It is perhaps not without significance that in many companies the accountant has most difficulty in explaining his point of view to those who, on the one hand, deal with human relations and those on the other who are concerned with engineering problems.

# CONSTITUTIONAL ASPECTS OF THE COMMON MARKET

THROUGHOUT the long controversy on the establishment of the European Common Market and this country's relationship to it, a debate which has run now from the middle of the 1950s, there has been remarkably little authoritative comment on its constitutional aspects. It is doubtful if even the signatories to the Treaty of Rome are at all clear as to the implications of the Treaty on national sovereignty. There are those who would work towards a complete fusion of national organizations into a single comprehensive western European nation. There are those who remain jealous of national institutions among whom towers the President of France.

The impact of such an instrument as the Treaty of Rome on the position of the Queen in Parliament in this country could be a fundamental issue. Last week Lord Dilhorne, the Lord Chancellor, spoke on this matter before an audience at Bristol. He said that

he saw no insuperable objection to Britain's agreeing to the surrender of the sovereignty of Parliament in limited respects if it entered the European Common Market. He said he could not see anything in the Treaty of Rome which in the least degree affected the position of the Queen. The sovereignty of Parliament was affected in two ways. It could not, without breach of the Treaty, exercise any control over the regulations made by the Council and the Commission. Secondly, it could not, without breach of the Treaty, fail to pass legislation to achieve the objects stated in the directives. He said he had no hesitation in saying that those branches of law most affecting daily conduct of the affairs of ordinary people will not be subject to community regulations.

This gives an authoritative start to a public debate. It is perhaps a pity that the constitutional implications of entry into the E.C.M. had not been aired at

an earlier date.

# SIXTH INTER-AMERICAN ACCOUNTING CONFERENCE

THE sixth Inter-American Accounting Conference was held in New York from September 26th-29th, and ran concurrently with the last two days of the Eighth International Congress. Nine hundred accountants, representing twenty-two countries, attended. The programme was a comprehensive one and included four plenary sessions and a variety of social ats for members and their ladies.

Wilkinson, of the United States, President of the Conference, said there were numerous unifying factors in the Western Hemisphere which would help accountants in working towards the advancement and improvement of accounting and auditing. He went on to mention economic links, geographical relationships, and historical background among these unifying factors.

Among reports considered by the Conference's permanent subcommittees were 'Auditing', 'Interchange', 'Standard procedures', 'Terminology', and 'Fluctuation of purchasing power'. Dealing with the first of these, the committee urged that the promulgation of rules, standards and guides in professional practice 'should originate in the professional organizations of the respective countries'. It also urged an interchange of ideas among countries in order that 'the best procedures, innovations and advancement' can be adopted in each country. On the subject of 'Interchanges', measures for the increased exchange of students and professors, the standardization of terminology, and the unification of standards, particularly in auditing were recommended.

"The role of the public accountant in the economic development of Western Hemisphere countries' was the theme of a technical session. Speakers from Brazil, Costa Rica, and Argentina delivered addresses on "The accountant as a public or private official', "The accountant in independent practice' and "The

<sup>1</sup> Newman Neame Ltd, published fortnightly, 1s 6d post

accountant in research and training'. At the final plenary session, bye-laws for a possible permanent organization were discussed, and Mr Robert E. Witschey, C.P.A., newly-elected President of the American Institute of Certified Public Accountants, addressed the conference.

# ROCHDALE REPORT ON THE DOCKS

THE Rochdale Committee's report on this country's docks includes a recommendation for the establishment of a non-operational National Ports Authority to supervise the development of a dock system. It should have eight to twelve members appointed by the Ministry of Transport on a part-time basis, supported by a permanent staff. This authority would approve capital expenditure above a certain figure, consider appeals on port charges, and

prepare schemes for amalgamation of docks. The committee considers it urgent to achieve a greater degree of decasualization of dock labour.

The general background of the report is that world trade is increasing rapidly and that British ports suffer from lack of capital, old-fashioned equipment and out-of-date management-labour relationships.

In developing a dock system the report sees particularly an increase in European trade and great emphasis is put on the need to expand the potential of Southampton as a cargo port and to further develop the London docks despite the present congestion.

Recommendations on the Clyde, the Mersey and the Forth are mainly organizational. The committee see little opportunity for further expanding the facilities along the Manchester Ship Canal. The Government is now studying the report and calling for comments from organizations in the industry.

# This is My Life . . .

by An Industrious Accountant

CHAPTER 140

ARTHUR was one of our assistant accountants; a slim, pale young man with a shy aloof He was a dreamer, apparently devoid of initial e, and painfully, pinkly tongue-tied with the brisk young ladies who handled the company's records. We wrote him off early as being short of dynamic management potential. Not altogether on character, of course, nor even on ability. He had plenty of that, as evidenced by his qualification, not to mention his casual knack of solving *The Times* crosswords or chess problems at practically first glance. It was just that he seemed so negative, so un-impact-making.

Then one day I found myself beside him at the snack-counter in the staff canteen. How were things going, I asked casually, regrettably more interested in my correct bun then my innion

in my current-bun than my junior.

He sat gazing vacantly out the window for a moment, his mind clearly miles away. Then he exclaimed suddenly. 'I'm sick of all those silly gabbling customers. Who wants to tot up sales of drapery? I want something bigger. Look!'

He spread a sheaf of pamphlets on the counter... 'permanent commissions in the secretarial branch for qualified male accountants'... a note of reverence made his voice suddenly husky. 'I'm going to join the R.A.F.'

Mind you, it's a career I know little enough about, that of accountant in the Services; the leaflets held a peculiar fascination. He could start right away as pilot officer and be promoted to flying officer after three months, Arthur explained. He brought out a huge and impressively curved pipe which I'd never

seen previously, and filled it thoughtfully; he'd be a flight lieutenant in three years or so. He became suddenly alert; his eyes gleamed compellingly. He was eligible for special credits for his qualification as well as for his accountancy experience; the prospects were inspiring.

As he stood up briskly. His chin was up, his shoulders braced; he was a new man. 'This leaflet says that we assess and disseminate intelligence reports, and use codes and ciphers', he said gaily. 'I'll probably report direct to the Prime Minister on toplevel stuff'

In my mind's eye, I saw him hunched over the mysterious cryptogram in the small back room; tense, hawk-eyed, his chest ablaze with decorations, his forehead seamed with an ancient scar. Beside him the Minister of War plucked nervously at his collar, the chiefs of staff gnawed their nether lips. At his feet, Mata Hari crouched sobbing in repentant adoration.

'I've a chance of ending up as air commodore; the baton in every knapsack, you know', said Arthur. 'About £3,000 a year, plus extras, and long leave, of course. After all, I used to be quite good at making those little model aircraft'. He doodled rapidly on the menu, something that looked like a Martian octopus. 'Mere civilians really don't appreciate the progress we're making in the R.A.F.'

I felt rather dazed under his flow of eloquence; it seemed unworthy to point out that as a bachelor, he'd miss the marriage allowance; he wouldn't be paid all that well. Arthur shrugged off the thought. Better change that right away', he said enigmatically. He almost saluted as he left; he looked like my boyhood hero, Lawrence of Arabia.

I heard later that two other of our junior accountants propose to join him, and three blushing typists want extra-special leave of absence. It's nice to see the glamourized side of the profession bringing out the latent personality of a man like that.



# Eighth International Congress of Accountants

NEW YORK, SEPTEMBER 23rd-27th

# Message to the Congress from President Kennedy

I am very pleased to extend greetings and warm best wishes to the delegates and their families attending the Eighth International Congress of Accountants. I especially welcome those from other nations of the world and wish them a pleasant visit to the United States.

Your Congress, meeting at the invitation of the American Institute of Certified Public Accountants, offers an excellent opportunity for the exchange of information and ideas. As we gain confidence in each other's policies of economic disclosure, accounting can, indeed, become an international language of business. As a result, capital will flow more freely, and the international exchange of goods and services will increase more rapidly. Many of the problems with which you will concern yourselves during your meeting will, I feel sure, bear directly on the ability of all of us to strengthen the spirit of international economic confidence.

With all good wishes to those attending the Eighth International Congress of Accountants for a successful and constructive meeting.

JOHN F. KENNEDY.

THIS message from the President of the United States was read at the opening plenary session of the Eighth International Congress on September 24th. The message was conveyed by the Congress President, Mr Arthur B. Foye, c.p.a., who welcomed the assembled representatives of 124 accountancy bodies from 62 countries. With him on the platform were Mr Joseph Campbell, Comptroller-General of the United States, Sir Harold Howitt and Mr Jacob Kraayenhof, Presidents of the Sixth and Seventh Congresses held respectively in London and Amsterdam, together with Mr Arthur K. Watson, President of the I.B.M. World Trade Corporation, and Mr P. F. S. Otten, Chairman of the Board and Delegated Director of N.V. Philips' Gloeilampenfabrieken, each of whom were to address the Congress. Also on the platform were the Presidents of the nine American sponsoring organizations and the other Congress officers: Mr J. Harold Stewart, Vice-President, Mr Harold R. Caffyn, Treasurer, Mr Thomas D. Flynn, Assistant Treasurer, and Mr John L. Carey, Secretary.



Mr Arthur B. Foye



The famous New York skyline with which many visitors to the Congress will now be familiar.

# MR JOSEPH CAMPBELL

Addressing the Congress, Mr Joseph Campbell, c.p.A., Comptroller-General of the United States, said:

You are gathered here from many lands for one of



Mr J. Campbell

the major episodes in the history of a great profession. Your presence is impressive evidence of the importance of accounting in our modern life and the wide-spread interest in it.

Fostering in all countries a better understanding of the aims and purposes of accounting and of the contributions that it can make to better management of public and private functions should be an important accomplishment of this meeting.

Accounting has been described as an ancient art. It developed and grew concurrently with the development and growth of the concepts of ownership and exchange of wealth and property, of private business ventures, and of levying and collecting taxes. Accounting finds its roots in a nation's culture and in its political and economic concepts. Its philosophies and aims vary in different countries. You will learn here at first hand about some of these differences. The knowledge you take away should help in understanding such differences and in forwarding the art in all countries.

An important responsibility of the accounting profession is to promote the communication of financial information about the operations of public and private enterprises. I know that progress will be made during this meeting in encouraging greater emphasis on this important responsibility.

# Government Accounting

In my position as Comptroller-General of the United States, I have as one of my concerns the accounting of the Government of a great nation. Our national legislature has prescribed in law high standards of accounting to be observed by the component agencies of our Government. By law, the objectives of accounting for the agencies of our Government are to provide full disclosure of the Government's financial operations, adequate information necessary for the management of its operations, and effective control and accountability of its resources.

One of the duties of my office is, in the light of these overall standards and objectives, to prescribe for all agencies the basic principles to be followed in accounting for their affairs. It is because of this kind of responsibility that I have an abiding interest in the proceedings of this International Congress.

It is my sincere belief that, in a free society such as ours, where the people are the masters and the Government is the servant, sound public decisions can be reached only on the basis of sound information. As in private business, Government managers have the responsibility for reporting fully to the people on their stewardship of the resources which the people have entrusted to them. This reporting must necessarily

have as its basis a good system of accounting supported by a strong and effective system of managerial control.

I understand that auditing will also be discussed at some length during your meeting. This subject is also of great interest to me because, in addition to concern with accounting, my office has the further responsibility of auditing the operations of our national Government.

The size and scope of these operations are great and varied and they make the carrying out of this responsibility a heavy one. But it is a truly important one and I shall look forward with special interest to your discussion of this function during the Congress.

Our auditing work is carried out through a staff of over 2,000 professional accountants and auditors. Over 400 of these are certified public accountants.

We are completely independent of the agencies whose affairs we examine. This independence – so vital to the effectiveness of auditors everywhere – is the key to the effectiveness of our operations.

The financial affairs of many national Governments now extend far beyond their own borders. The United States, for example, is spending or investing billions of dollars abroad every year. Other nations, in turn, have a stake in our economy – and in the economy of other countries. Because of this flow of both public and private funds, we have mutual interests in understanding how things are done in other countries and in knowing something about the concepts and functioning in all countries of such important activities as accounting and auditing.

I do not underestimate the difficulties in achieving such understanding but this Congress is a good place

It is encouraging to see you here – some of you from great distances – many of you at a great sacrifice. I wish you every success, and I trust that you will return safely to your homelands to continue the important work which will go forward at this meeting. (Applause.)

### SIR HAROLD HOWITT

Speaking as President of the Sixth International Congress held in London in 1952, Sir Harold Howitt, G.B.E., D.S.O., M.C., D.C.L., F.C.A., said:



Sir Harold Howitt

My first thought is naturally to express thanks for the honour you do me, along with Mr Kraayenhof, in inviting us to reply on behalf of all your guests to the President's welcome. It is a great privilege to be here in this famous city and to feel once again the pulse of your mighty nation mighty in its strength and, even more important, mighty in its power for good in the world.

It is not for me at this stage to thank you, Mr

President, for all you have prepared for our enjoyment – intellectual and recreational. As public accountants we are not allowed to indulge in prophecy, but even

Our job in essence is to hold the balance fairly as between man and man so that they may make their decisions and if possible settle their disputes. The time will probably never be reached when excessive demand is avoided whether in claims for wages, salaries, or other emoluments, or for profit margins, but we are at last coming to the realization that it is only out of increased production that these can be effectively increased, that the consumer at the same time is entitled to consideration in the matter of prices, and that contributions to emergent and other countries overseas can only in the long run be met from home production.

# Improving Efficiency

The deeper one delves into the repercussions of these modern economic problems - on the national balance of payments, on the value of the currency, etc. - the more one comes back to these simple economic truths. As accountants our chief contact with this issue is in helping in all forms of efficiency and in profit ascertainment. Our work and responsibility in both these spheres will, I am sure, greatly increase. More and more are we being called on by management for help or actually to join their ranks. Profits, of course, along with costs, have to be covered in the price of goods and services sold and their effect thereon, and accordingly on the general price level, is considerable. Increasingly for these reasons are profits and prices coming to be required to be justified to Governments, to Courts and to the public. Increasingly is it important to be able to justify how far business extensions may fairly be financed out of profits, and therefore out of the consumer, rather than from the capital market.

As accountants we must admit that we have not yet reached unanimity amongst ourselves on certain matters within our province. I imagine the chief among these is the proper method of providing for depreciation or renewal of capital assets in days of deteriorating currency values. We are often blamed for this lack of decision by sectional interests who have differing objectives in mind, whether the saving of taxation, or the provision of further finance for develo ment. It is well, however, to remember that the blame should not be laid at the door o profession but at the door of inflati really prepared to scotch inflatig pay lip service to the desiral problem would not arise. It to press unreasonable. complain about the The claimant but don't the peril hall so

# MR J. KRAAYENHOF

Mr J. Kraayenhof, of the Nederlands Instituut van Accountants, and President of the Seventh International Congress, held in Amsterdam in 1957, also

replying to Mr Foye's address of welcome, said in the course of his address:

Being the second speaker invited to respond to the President's kind words of welcome, I believe that nobody will expect me to try to surpass Sir Harold Howitt in his excellent speech in the name of all the guests from abroad and I shall therefore restrict myself to a few remarks in general terms.



Mr J. Kraayenhof

In the first place I want to refer to the seventy-five years' jubilee of our host, the American Institute of Certified Public Accountants. On behalf of all the representatives from abroad I would like to express a tribute to the American Institute for its excellent work in the field of accounting, not only in America, but also to the benefit of many other countries of the free world. May I invite all the guests in this room to rise and join together in warm applause to you, Mr President, as the first representative of your Institute. (Applause.)

In 1952, in London, our colleagues in Great Britain and Ireland organized the first post-war international congress. It was a very good re-start to the series of

meetings. In 1957, in Amsterdam, we undoubtedly came vet closer together, favoured, too, by the more moderate dimensions of the city. My Dutch colleagues and I are still much impressed by the friendship and co-operation that continues to be shown to us by so many accountant colleagues and their wives whom we met in 1957. I am convinced, Mr President, that you and your committee nembers will receive the same enjoyable dividends rom the time you have devoted to the 1962 congress. considerable and encouraging increase, second post-war congress, in the abroad: London had about

ooth figures including the understand there are om countries other dication that

y felt in

my Institute could hardly have me on the mat if I certified on the basis of your programme that your traditional American hospitality is determined to overwhelm us with kindness.

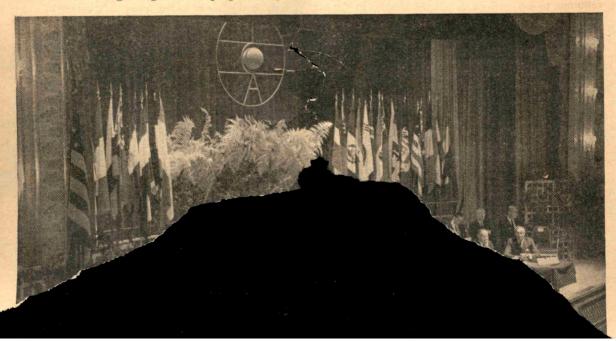
I suppose I am a bit of a patriarch at these international congresses. This is the fifth I have attended. I have read papers at two of them - in London in 1933 and in Berlin in 1938. I was President in London in 1952 when you honoured us with no less than nine presidents of the American Institute and many of its members. And twice I have been privileged to take part in the opening addresses - in Amsterdam in 1957 and now here today. Perhaps, therefore, I may be allowed to reminisce quite briefly and compare the form of these different duties. In terms of hard work and anxiety it is hard to choose between reading a paper and being president, though the former is not so continuous, and the latter I am sure you will find, sir, a most rewarding and delightful experience enormously helped, as I was, by the labours of your committees and secretariat. To respond to the address of welcome, though onerous in one sense, is a position of 'greater freedom and less responsibility' and I can thoroughly recommend it.

# Responsibilities of the Profession

Accountancy is a comparatively young profession and these congresses must therefore be invaluable as a means of stimulating thought and helping to bring the level of all professional work up towards the level of the highest, wherever it is to be found. We have also our responsibilities to train and to help the young accountants in the less developed countries of the world. The shrinkage of the world due to travel facilities, the closer integration of financial, industrial and political contacts between nations – of which the latest is the Common European Market – must place heavy responsibilities on the accountancy profession. We must accordingly in our dealings between nations, no less than internally, have an understanding of each other's conceptions in presenting that which in my country we call the 'true and fair view'.

A great responsibility rests upon us in this context. Most disputes, even those which lead to wars and rumours of wars originate out of economic and financial affairs, and ours largely is the responsibility for laying the foundation from which facts may be compiled on a comparable basis, and on which agreement may be reached if the will to do so be there.

Most of our work is, of course, internal to our respective countries and here, even more, our handiwork is the basis on which the financial structure rests. The tax revenues of our Governments could not be collected if we were not both skilled and trusted; the flow of money in all its channels could not be maintained without proper accountancy control and presentation; nor could the appropriate decisions be taken by management, either in regard to past results or future planning.





General view ox opening session.

Apart from an important and fruitful growth in individual international contacts, I find a still scarce but increasing number of contributions from authors from other countries to the national professional journals, and more lectures given by speakers from abroad.

Besides, on this side of the Atlantic Ocean there are already regular Inter-American conferences, as there will be one after our congress. In the Far East, congresses are held by the Asian and Australian accountancy bodies, and last but not least – said by me as a European, with proper modesty – next year, in September, the first all-European congress will be organized in Edinburgh, Scotland, the cradle of the organized accountancy profession. Undoubtedly the international congresses have largely contributed to prepare the ground for this event which, to my opinion, can be of historical value for the development of the profession in Europe.

Progress is surely being made, but world events move so rapidly that we must make even faster progress to meet our professional responsibilities fully. In my opinion there are three crucial areas in which international co-operation is needed:

Firstly, in the education, training and examination of new recruits, which must be seen to be of the greatest importance in view of the steady increase in the profession's international scope. It was therefore with great pleasure that I learned of the international group that will come together on the subject of accounting education next week at the University of Illinois.

Secondly, on the need for uniformity in accounting

principles, and to this end the necessary systematic international research on the differences and their significance, in order to investigate the possibility of developing a broad set of accepted principles. I am happy to learn that serious consideration is being given to this problem by the American Institute's Committee on Long-range Objectives.

Thirdly, on the necessary uniformity of auditing standards and procedures. While increasing international contacts have made a start toward the acceptance of one philosophy and similar standards, many differences remain. Here, too, an organized, systematic approach would speed up progress.

It is, Mr President, a fact that the present congress, in its broad subject of accounting and auditing in the world, invites a conscientious study of and an open discussion on the problems referred to in my second and third points. The great number of technical papers to be presented here will undoubtedly contribute much to our understanding of present practices throughout the world. May I express the sincere hope that internationally co-ordinated research, study and discussion may soon be organized. If the discussions here should encourage such a step, this Congress, with its overwhelming attendance, will be seen as a landmark in the march towards more uniformity in the accounting field.

Concluding, may I, Mr President, to this end urge all participants of this Congress to co-operate by giving their best efforts for the success of both the business meetings and the social events, in an atmosphere of good friendship. (*Applause*.) 426

### MR ARTHUR K. WATSON

Mr Arthur K. Watson, President of the I.B.M. World Trade Corporation, in the course of his address said that the world had lived a long time with imperfection and lax controls, but he foresaw the day when systems in business and Government would calculate to the last detail. Then, he said, a business budget could come out to the penny and tax systems, monitored by computers, could collect every franc, lira and dollar they were designed to raise. On balance, these could be great improvements. But, he warned, we must not allow the new, perfected systems to stifle initiative in business, nor, in the name of orderliness will we want to pervert the new technology into a kind of automated

nosy neighbour. People, he said, not only need elbow room, they must have it. To see that this was guaranteed was the responsibility of mature, professional people in control.

Another major point of Mr Watson's address was his assertion that if private enterprise is to flourish in the free world, and if the developing nations are to get the massive infusions of money they must have, then the world-wide flow of capital has to increase immediately. He said the accounting profession, more than any other, must help make this increased flow possible by finding ways for the business man in one nation and the investor in another to communicate with each other.

# PUBLIC FINANCIAL REPORTING

Drs. P. F. S. Otten, Chairman of N.V. Philips' Gloeilampenfabrieken (Eindhoven, Netherlands), then ad-

dressed the Congress on the subject of 'Public financial reporting', in the course of which he said:

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Drs. P. F. S. Otten

Not being a member of your profession but an industrialist, I am pleased that you have extended your choice of speakers for the opening session to that section of the business community which may be described as 'the business-leaders'. In so doing you demonstrate that you as accountants are aware of your function in a 'world economy', a function

which you accomplish mainly with and through the business community. From the reports of the proceedings of previous congresses I have learned that those congresses dealt with subjects of importance to accountants in all countries. I would like to congratulate the Council of this congress for having decided to stress the international character this time by giving a central place to world economy, which I appreciate you as accountants will approach under the headings of 'accounting', 'auditing' and 'financial reporting'.

who does not understand that an auditor must give an independent opinion should neither give an assignment to a public accountant nor appoint an internal auditor.

I want to emphasize that I consider the auditing function of essential importance for public financial reporting. As far as I am concerned an annual report is not complete without an auditor's certificate. But I also believe that the advisory function of the auditor, in relation to public financial reporting, is at least as important as his pure auditing function. The responsibility for financial reporting rests primarily with the management of the enterprise and by making use of he advice of experts the management can act in the most effective manner in accordance with that responsibility. Prevention is better than cure. The management of the enterprise should organize its reporting as well as possible, which implies that it should aim at preventing the auditor's comments or criticisms afterwards. It can achieve this by soliciting the auditor's previous advice. That the audit may then lead to a clean certificate without prior comments or criticisms does not decrease the significance of the audit work, on the contrary I should say: This is the reason why the auditor's advice has always been welcome to me.

The auditors, with whom I have been co-operating for many years, maintain that I am 'audit-minded'. That is right, but not because of the auditors – sometimes they can be extremely difficult – but because I regard auditing as an indispensable element in the organization of an enterprise.

# Auditor's Role

First I would like to give my views on the auditor. I am aware of the fact that an auditor is somebody with a certain professional skill and that he applies this skill in his auditing function in order to arrive at an independent personal opinion. In some cases the purpose of this opinion is to give the public additional assurance with regard to the published financial statements of an enterprise; in other cases this opinion only gives assurance to the party requesting it. I also know that in the practice of your profession the advisory capacity plays an important role.

Independence in forming the opinion is to me an essential element of the audit function. It is a necessary complement of professional skill. So firmly do I believe in this that I am of the opinion that an industrialist

### World Economy

After these general observations regarding the auditor, I would like to proceed with my subject proper. In the first place 'world economy' demands our attention. You will agree that this subject has so many aspects and is of such importance that your entire congress could be dedicated to this, and even then it would certainly not have been dealt with exhaustively. Therefore I must severely restrict myself, and this I can afford to do because my subject is limited to financial reporting in relation to world economy.

When speaking of world economy we find that the free world is composed of a number of countries which, it is true, have achieved a certain degree of economic co-operation, but in which national economies continue to hold a dominating position. Fortunately there is a growing awareness that a closer co-operation must be

achieved. We can observe with satisfaction that in several parts of the world - notably Europe - efforts which have been made in this direction are encouraging. It is of the utmost importance that all free countries should realize that the ultimate goal is the unity of the entire free world. I believe that only in this way can we create a position on which we can take a stand against communism in a positive way. Destructive criticism will not save the free world from the communist danger; demonstration of the unity of the free world and the favourable results of our co-operative endeavours is the appropriate weapon.

In my opinion there is no reason to doubt the fundamental rightness of our economic system. The continuous improvement of productivity made possible by the dynamic technical development in our society leads to a continuous rise in the standard of living and we may feel confident that this improvement, contrary to what happened in past years, will be attained without major cyclical set-backs, although there may be minor incidental interruptions in our progress. On the one hand we have learned more about the nature of business cycles and their effect, while on the other hand the structure of our economy has been strengthened with a number of 'built-in stabilizers' among which I would like to mention specifically improved social security, such as unemployment benefits.

# Free Enterprise

After these observations on some general aspects of the world economy, in which I hope I have left no doubts as to what we in the free world should be striving for, I now come, when reflecting on my sub ject of financial reporting, to the free enterprise of which the economy of the free world is mainly based. The spectacular economic progress in the free world during the past hundred years is due to a large extent to the rise of the large industrial enterprise. The rapid technical and social evolution has been attended by a fundamental change in the ideas regarding the objective of the enterprise. Formerly this was considered to be the pure striving for profits to which everything else was subordinated more or less. In the development of the economy it has become abundantly clear that our efforts should be directed not at maximum short-term profits but rather at the most appropriate profit applicable to the continuity of the undertaking. The evolution in the social field shown in the continuous improvement in terms of employment and in social relationships within the enterprise, has caused the social aspect to become an important element in the policy considerations of management with regard to that continuity.

The effect of the emphasis on continuity is that financial reporting should not be restricted to a particular period, but should be suitable to the concept of continuity. One should also take into account that the report is intended for various groups of interested parties, whose interests, again seen in the continuity of the enterprise, should be weighed against each other in drafting the report. Thus the report should not only serve as an accounting to shareholders, but also as information for all those who play a part, either directly or indirectly, in the continuity of the undertaking, that is to say the capital markets, employees, customers, suppliers and the Government.

Another development plays a part in financial reporting, namely that investors, in selecting investments, increasingly seek the advice of experts, who in forming their opinion, rely principally on published information. In this context the annual report holds the predominant position, although we should not overlook the importance of quarterly reports, press conferences and incidental information published as and when deemed necessary.

Thus there are a number of considerations which a management, and in particular the management of a large enterprise, will have to take into account in their financial reporting to meet the requirements imposed by this evolution. If a reasonable solution to the problems connected with reporting at this level is to be found, a profound knowledge of business economics will be required both on the part of the experts within the organization itself and on the part of the advisers

of the enterprise, especially the auditors.

I would like to pay separate attention to the effect of the development of world economy on financial reporting. Enterprises increasingly call on foreign capital markets, investors operate on them and there is a tendency for enterprises to participate more actively in the industrial life of other countries. In these cases there is a need for certainty as to the meaning of the information which is embodied in the reporting. Moreover, I hope that I have succeeded in demonstrating that from pure motives of self-interest it is the duty of all of us to make the maximum contribution to stimulate co-operation and unification of the free world. Therefore I am of the opinion that the development of world economy places on those who are responsible for financial reporting the obligation of attaining the greatest possible uniformity in contents and presentation. Only when this is achieved will the national boundaries in the field of reporting disappear and will it be possible for everyone to draw his conclusions from reports of any enterprise located in any country with understanding and confidence. Only then will readers place the same reliance on the auditor's certificate included therein.

### Changing Price Levels

The need for uniformity - I would like to stress this does not only relate to accounting but it also concerns the economics of the enterprise. Problems of the highest order are involved. I would like to mention for example the effect of changing price levels on the calculation of profits and capital; in the Netherlands the application of the replacement value theory is, at least for management, an important aid in arriving at economically justified and therefore also comparable results. In our own enterprise we only consider as profit the surplus remaining after the purchasing power of the capital invested has been maintained. Also I would draw your attention to the rates of exchange, which in times of inflation require a lot more attention than a mere glance at the quotations to arrive at a justified calculation of capital and profit. In conclusion I would like to mention the importance of the tax problem, arising from the differences between tax regulations and economic principles. It would certainly be a great step forward if all tax authorities were to accept the economic principles.

The striving after uniformity in public financial reporting in my opinion should only concern itself with principles and not with details. If one were to go further it would lead to a rigidity which would be too

restrictive for both management and auditors.

In financial reporting I perceive four areas in which uniformity is of essential importance, namely:

(1) the function of the annual report;

(2) the reconciliation of the annual report with the internal information for management;

(3) the principles of the calculation of capital and profit and the demonstration thereof in the annual report;

(4) the meaning of the auditor's certificate.

The function of the annual report should not only be for management to render an account in respect of a past period, but management should be aware of the concept of continuity in the drafting of its reporting. I would like to say that reporting should be 'dynamic', that is: the period to which the report directly relates should be placed in the right perspective: the past, the present and the future.

The reconciliation of the annual report with the internal information for management implies that capital and profit will have to be the same in either case. I am firmly convinced that there should not be different concepts of capital and profit for internal and external purposes. Of course one will have to take into account the extent and the nature of the needs in each case which

means that in public reporting many details, and such information which when disclosed might be prejudicial to the interests of the enterprise, have to be omitted.

The principles of the calculation of capital and profit and the demonstration thereof in the annual report should not differ in their concept from country to country, nor need they differ if the right economic principles are accepted. I know that the hosts of this congress have already achieved much in this respect by way of their accounting principles, and that in other countries also rules and recommendations are in existence, but from the arguments I have expressed it will be obvious that I would like to see more. This is not the appropriate time for me to go further into this very important point nor would I venture to do so.

In closing I hope that I have succeeded in demonstrating that from the management's point of view it will be necessary to strive after greater uniformity in the fields in which you are specific experts. I firmly believe that in this way financial reporting can contribute significantly to the universal acceptance of our system of free enterprise which is of the greatest importance for a satisfactory development of the world

economy.

# Technical Programme

On Monday afternoon fifteen simultaneous technical sessions were held at each of which a paper was presented on each of the three Congress discussion topics – accounting, auditing, and financial reporting in relation to the world economy. Brief summaries follow of the forty-five papers presented; a number of the papers will be reproduced in full in forthcoming issues of *The Accountant*.

## Session 'A'

Chairman: Mr John W. Queenan, Past President of the American Institute of Certified Public Accountants. Vice-Chairman: Mr James G. Duncan, Canadian Institute of Chartered Accountants.

Subject: 'Some aspects of auditing in the international field'.

Speaker: Mr H. de Leeuw (Nederlands Instituut van Accountants). Partner in an accounting firm in Amsterdam. Has been a Vice-President of the Netherlands Institute; a member of the committee for advice on professional affairs, an examiner on methods and systems of accounting and auditing, a member of the examining board and other committees.

Summary: The growth of the world economy is correlated with the growth in the international flow of capital. The accountant plays the double role of adviser and auditor in these developments.

In the international business world there is a need to know on what accounting principles financial reports are based and what auditing standards have been applied by the auditor. Auditing standards still vary widely. The auditor who addresses his report to foreign parties must be aware that they are entitled to expect adherence by the foreign auditor to at least their own auditing standards. Greater uniformity is not only desirable but will become necessary with further expansion of international (capital) movements.

In the Netherlands accountants hold the view that they must satisfy themselves about the existence of assets by taking inventory stock themselves.

In regard to co-operation between public accountants in international audits, the paper makes the point that the Netherlands Institute requires that a Dutch accountant using a foreign report must be stisfied that it has been issued by a practising public accountant; he also has to mention in his own report that proper care has been taken in selecting that foreign accountant.

Subject: 'Statutory influences on accounting in Australia'.

Speaker: Professor L. A. Braddock (Australian Society of Accountants). Head of Department of Accountancy at the South Australian Institute of Technology in Adelaide, a Federal Vice-President of the Australian Society.

Summary: The differences in accounting standards which have developed in the free world because of geographic, economic and legal factors, hinder the flow of trade, movement of capital and the transfer of managerial techniques.

The use of taxation as an economic and social measure will remove taxation determination of incomes still further away from results determined on accounting standards. The effect of the statutes on managerial decisions is considered to be of great importance especially in influencing the capital structure of enterprises and the formation of holding and subsidiary companies.

In Australia much confusion has been caused by the existence of six different statutes covering the operation of limited companies. Accounting practice has run ahead of statutory regulation and has had strong influence on the proposed new Uniform Companies Act, especially in regard to disclosure requirements.

Before international accounting standards can be imposed, it is necessary to develop an internationally acceptable theory of accounting itself. Once this has been achieved, the national accounting organizations

will be able to express this theory in standards which have a bearing on accounting practice.

Subject: 'Financial statements and economic development'.

Speaker: Professor Federico Rioseco (Mexican Institute of Public Accountants). Has filled a number of positions in the Mexican Institute and, since 1958, has been a professor of Corporation Finance at the National University of Mexico.

Summary: The social trend of accountancy is a fact. Just as corporation management utilizes historical financial reports to forecast future operations, so do statesmen and economists require information on economic phenomena and activity to set targets and

prepare programmes.

Unfortunately, with few exceptions, economists lack the techniques, accuracy and speed needed for quantifying and processing data, and accountants lack the background in social and political sciences. Conventional financial statements do not satisfy the requirements of economic analysis. With this purpose in mind, it is essential to review accounting principles. For instance, at the Amsterdam Congress in 1957, theories on profit seemed to be getting farther and farther apart.

Perhaps the legal and fiscal bases of certain accounting postulates should be discarded in favour of economic principles. The traditional balance sheet must be restructured if it is to serve the needs of reporting the state of national economies. Profit and loss statements must also be revised so that they may serve as a first step towards the statement of national

income.

Production costs and operating expenses will require new presentations in conformity with economic

thought on input-output and added values.

When accountants and economists are able to work together in measuring and reporting of data needed-for the planning of economic development, it may be said that 'macro-accounting' has been born.

#### Session 'B'

Chairman: Mr Louis H. Pilié, Past President of the American Institute of Certified Public Accountants. Vice-Chairman: Dr Ernst Knorr, Institut der Wirtschaftsprüfer in Deutschland.

Subject: "The purpose and principles of accounting'.

Speaker: Mr J. E. Harris (The Association of Certified and Corporate Accountants). Managing



Mr J. E. Harris

director of an engineering company as well as a partner in a firm of public accountants. Graduate of London School of Economics of London University. Was national President of The Association of Certified and Corporate Accountants in 1960-61.

Summary: One of the primary purposes of the accountant is to determine income. Although it can be shown that accounting conventions have theoretical defi-

ciencies, it is inadvisable to depart from these conventions until the profession can be sure that their replacement would produce significantly more meaningful results and can be applied with equal facility in large and small enterprises. The conclusion is that this is not yet the case.

According to economic theory, income is the amount that can be distributed to stockholders while leaving the market value of the equity unimpaired. According to current accounting conventions on the other hand income is the difference between the revenue from sales, less the expenditure incurred while making those sales, while leaving the balance of expenditure not so charged to be attributed to future periods. Whereas the accountant recognizes profit only when a sale has been made, the economist recognizes the process of accrual and treats all gains alike.

The accounting convention demanding exclusion of capital gains and losses from being treated as part of income is more difficult to defend than all others, if the gains or losses are realized. It certainly is desirable that they should be segregated and shown as a separate category of income. But if accountants ceased to define income purely as a money concept, because the purchasing power of money is always changing, any other method adopted would be a mere approximation, too. Why, then, depart from a simple convention if its substitute would be more complicated and still be a fiction?

Subject: 'A Netherlands view on auditing standards'.

Speaker: Drs. A. C. J. Jonkers (Vereniging van Academisch Gevormde). Practises in Rotterdam. Obtained doctorate from the Netherlands School of Conomics in 1931 and has lectured in accountancy at the School.

Summary: In its introductory chapter, the paper makes the points that economic progress is the fruit of private enterprise and that there exists some correlation between the development of a country's economy and the level at which the accounting profession is practised.

Although nationally there is a wide range of agreement in respect of auditing, there are still important differences as regards the bases and minimum requirements for measurement and information. Even in the United States, which has taken the lead, there are still many shortcomings in these conventions. Among the various countries, there are great discrepancies in intrinsic value of accountants' reports, but they have not prevented the process of economic integration from running its course.

In regard to the significance of the Dutch auditor's report, the paper discusses the form of the report, accounting principles, auditing procedures and standards, and the measure of disclosure practised. The Dutch auditor's report refers to 'generally accepted' accounting principles, but acceptable practice varies in accordance with the needs of particular sections of business life. There is, however, a noticeable trend towards uniformity, and a set of rules recommended in 1955 by a group of entrepreneurs, bankers, accountants and financial editors has been wholeheartedly endorsed by the accounting profession in the Netherlands.

The Dutch accountant, the author concludes, has little power but much influence.

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Subject: 'Finnish accountancy and increasing capital movements'.

Speaker: Mr Börje Forsström (H.Y.T. Föreningen C.G.R. (Finland)). In public practice in Helsinki. President of H.Y.T. Föreningen in 1956–57. An associate member of the Institute of Internal Auditors (Scandinavian Chapter).

Summary: Finland's law of 1945 circumscribes the freedom of valuing assets and liabilities carried in balance sheets of companies; assets must be carried at historical cost or market level, whichever is lower; liabilities, on the other hand, must be carried at the higher level. Since the tax laws make no provision for corrections of inflationary development, the only possibility for adjustment left is in the flexible valuation of inventories. Tax authorities do accept, within certain limits, undervaluing of inventories. Because of the inflationary economy, profits are being ploughed back into inventories, and hidden reserves are thus built up.

As in Sweden, the Finnish external auditor usually acts as an adviser to management before the books are closed. Internationally, the author thinks, it would be disastrous to prescribe uniform rules on the closing of the books. The feasible thing is to give freedom of choice as to method, but to insist on the supplying of additional information needed for a full understanding of the financial position of the company audited. He cites the example of the Philips organization where the management supplies additional information in the form of footnotes.

#### Session 'C'

Chairman: Mr J. S. Seidman, Past President of the American Institute of Certified Public Accountants.

Vice-Chairman: Mr G. P. Morgan-Jones, Institute of Chartered Accountants in England and Wales.

Subject: 'The economic approach to accounting'.

Speaker: Drs. I. Kleerekoper (Nederlands Instituut van Accountants). Practitioner in Amsterdam; obtained his Doctor of Economics degree from the University of Amsterdam in 1937. A member of the Netherlands Institute since 1948, he is president of its Examining Board.

Summary: In the Netherlands, the problems of accounting have for decades been approached scientifically in close conjunction with, and on the basis of, the development of a normative—i.e. directive—theory of business economics. This approach may have partly been stimulated by the relative absence of legal regulations concerning the profession. The Dutch definition of accounting is: "The systematic recording, processing and supplying of information for the management and operation of an entity and for the reports that have to be submitted thereon."

What is needed is international agreement on the correct concept of profit and the notions of value and cost underlying it. Accountants should not be captives of current practices, but should rather look at what ought to be done. Only such an approach can lead to normative conclusions. The foundation for accounting must be economic science, and the accountant should have a thorough grasp of business economics. The current preoccupation with the social functions of business tends to obscure the fact that, in the long run, the objective of business must be the making of profit.

Rejecting the concept of 'historical cost', the author submits that 'cost' should be the 'replacement value' of goods and services casually required for economically efficient production. Historical cost is only feasible in exceptional cases where continuity of production is about to end. Large enterprises need continual value recording, with the value differences specifically set aside.

Subject: 'Auditors in a developing economy'.

Speaker: Dr Washington Sycip (Philippine Institute of Certified Public Accountants). Graduated from the University of Santo Tomas in 1940 and obtained a Ph.D. from Columbia University in 1942. President of the Philippine Institute in 1951.

Summary: Procedures used and standards observed by the profession in the Philippines follow closely those in the United States. Organized in 1929, the Philippine Institute of Certified Public Accountants has a current membership of 2,300 certified public accountants. Its 1949 statement on 'Auditing standards' is fairly similar to that of the American Institute.

In the past few years, many Philippine auditors have begun to insist on attaching fairly extensive notes to financial statements to explain or clarify various items. The practice has been welcomed by banks and credit institutions.

The auditor's role in a developing economy includes much more than that of merely providing auditing services. Advice is part of his services. He has to be familiar with changes and problems facing the business community, and he must be active in a variety of civic fields. To help the under-developed areas, members of the international auditing community should: Assist in-training auditors in countries where the profession is just starting; take a more active part in correcting the defects of our competitive system; better educate the public on some of the underlying assumptions of present-day accounting practices; develop more uniform auditing standards; further study possibilities of extending the present financial audit to a 'management audit'; make more readable the financial statements accompanying the auditor's report.

Subject: 'Financial reporting and the world economy, with particular reference to outsiders'.

Speaker: Mr R. O. A. Keel (The Institute of Char-



Mr R. O. A. Keel

tered Accountants in England and Wales). Managing director of a publishing company, he has been active in professional affairs for many years and has published articles on accounting.

Summary: The objectives of financial reporting are to improve the use of resources, to encourage the flow of trade and to illustrate the performance achieved. The author deals with events and situations that should be reported, past, present and future,

and the trend. Financial reports are read by investors, creditors, Government, customers, suppliers, Press and

accountants, and the author refers to the varying aspects of the reports in which they are interested.

He reviews the background of financial reporting in Great Britain, i.e. company legislation, particularly the Companies Act of 1948, contemplates a new amending Act and comments on the role of the accounting profession.

He goes on to refer to the types of report and their content: occasional and periodic reports; annual reports and accounts; and to the statistical uses of financial reports: studies of income and assets and of sources and uses of funds.

On the future, the author concludes that we are living and are going to live in a world where the international boundaries are going to fade fastcertainly in terms of knowledge and standards of practice in the accountancy profession.

#### Session 'D'

Chairman: Mr Alden C. Smith, Member, Congress Organizing Committee.

Vice-Chairman: Mr Nils Karlgren, Föreningen Auktoriserade Revisorer (Sweden).

Subject: 'Auditing and the world economy'.

Speaker: Mr T. A. M. Hutchison (The Canadian Institute of Chartered Accountants). Has served as Treasurer of the Canadian Institute and as chairman of its Accounting and Auditing Research Committee. Has also served as a Governor of the Canadian Tax Foundation.

Summary: In Canada, financial statements are regarded as being the responsibility of management, as in effect an account rendered by management. The independent accountant is responsible for determining that there is adequate and fair disclosure of information in the financial statements.

Corporation financial statements are governed by the requirements of the particular Companies Act under which it was incorporated. Where the Companies Act is silent on the matter, the Canadian Institute of Chartered Accountants has recommended a formula for the accountant to express his opinion. This includes reference to fair presentation in accordance with generally accepted accounting principles, and the auditor is expected to qualify his statement if he finds a deviation from these principles. If there is a deviation from principles applied in the preceding period, the auditor is required to see to it that adequate disclosure of this change in principles is made.

The Canadian Institute has issued nineteen bulletins in the last sixteen years on the application of accounting principles. Because of the strong flow of capital from the United States into Canada, accounting principles applied in the United States have had a strong influence on Canadian practice.

Subject: 'Financial reporting and the world economy'. Speaker: Dr H. Ratsch (Institut der 'Wirtschaftsprüfer'). A member of the German Institute's principal research committee, graduated from the Oberrealschule Berlin-Steglitz with a B.A. degree in 1924. Also holds an honorary degree of Doctor of Economic Sciences from the West Berlin Technical University.

Summary: The paper discusses the influence of German corporation legislation on the form and content of financial reports. It notes that this influence has been decisive. A new law not only grants stockolders more rights, it also imposes heavier responsi-



One of the fifteen technical sessions in progress on Monday afternoon.



Mr P. F. Carpenter with Mrs Carpenter (left) talking with Mr and Mrs Walter J. Hoffman, of Los Angeles, at the Congress reception on Sunday evening.

bilities on them. It will be up to the stockholders to decide on how much of the profits should be reinvested. The new law provides for a greater measure of disclosure. Changes in accounting method must be reported in the annual report; but the management is under no legal obligation to state whether these changes had a favourable or unfavourable effect on the year's earnings.

The mandatory examination by a public accountant covers that part of the annual report which comment on the financial statements. The auditor's report includes a statement to the effect that the annual accounts and annual report examined by him comply with statutory requirements.

The author further examines the influence exerted on financial reports by stock exchanges and the tax authorities. The new German corporation law has in several respects been inspired by the United States Securities and Exchange Commission.

In the age of progressive economic integration it is held imperative for all to speak the same language as far as figures and their presentation are concerned. This uniformity should include an internationally accepted accountant's report. The accounting profession should take proper heed of the growing integration of the Western world.

Subject: 'Communications: problems facing the practising accountant as a financial reporter'.

Speaker: Professor D. S. Anderson (The Institute of Chartered Accountants of Scotland). Partner in firm of chartered accountants in Edinburgh. Professor of Accounting and Business Methods at Edinburgh University.

Summary: The profession has not very adequately met the challenge of developing the art of financial reporting. Not nearly enough has been done to meet the needs of increasing numbers of stockholders. There is no agreement as to the exact meaning of some of the more important and elementary terms employed by the profession; terms such as 'depreciation', 'profit', and 'book value of the fixed assets'. Balance sheets are produced which the great majority of readers believe

to depict the year-end value of the business but which do no such thing. And the profession does not make an effort to dispel the public's wrong impressions.

Though the professor does not believe in standardization of accounting techniques, he does believe in the professional obligation to make reports comprehensible so as to avoid erroneous interpretations.

The problem of communication on a generally acceptable basis is perhaps the most serious one facing the practising accountant. There is an immense need for an internationally accepted dictionary of accounting terms and the professional bodies should give attention to this important matter.

The U.E.C. (Union Europeene Contable) has made a commendable beginning by producing a lexicon of accounting terms in French, German, American-English, Spanish and Dutch. It is not known, however, how far the definitions presented have been accepted by the accounting professions of the countries concerned.

#### Session 'E'

Chairman: Mr J. Harold Stewart, Congress Vice-President.

Vice-Chairman: Mr S. N. Desai, Institute of Chartered Accountants of India.

Subject: 'Auditing and the world economy'.

Speaker: Mr Henry A. Benson, C.B.E. (The Institute of Chartered Accountants in England and Wales). A member of the Institute since 1932, and a member

of the Council since 1956, he has served on number of Government Committees. He received the C.B.E. in 1946.

Summary: Main objective of auditors in the United Kingdom is to report to shareholders whether or not the accounts presented to them at the general meeting present a true and fair view of the state of affairs and the profit or loss of the company. "True and fair' may be compared to American usage of 'present fairly'.



Mr H. A. Benson

British company legislation does not define 'true and fair'; the meaning of the phrase has been built up over the years by the standards of presentation specifically required by the Companies Act. This includes disclosure of the basis used to arrive at the amounts at which fixed assets are stated. Depreciation must be written off year after year on a consistent basis; current assets must be stated at the lower of cost or realizable value; there must be no 'secret reserves' concealed among the liabilities; full provision must be made for expected losses; changes in the basis of preparing accounts must be reported.

Reciprocity rights for accountants of all countries are desirable, provided these accountants have had the proper training and have all the needed qualifications for doing a competent job. The Council of the English Institute has gone on record as favouring the principle of reciprocity.



At the Congress reception. (Left to right): Mr William Bishop, Mrs Bishop and Mr Derek du Pré.

Subject: 'The auditor and financial reporting'.

Speaker: Professor A. Goudeket (Nederlands Instituut van Accountants). Chief internal auditor of Philips' Gloeilampenfabrieken, Eindhoven, Netherlands. Member of the Netherlands Institute since 1929. Also serves as part-time professor at the Rotterdam University.

Summary: Main problem areas in the accounting profession are basically the same in all countries. If the profession wants to make as positive a contribution internationally as has been made on the national level in many countries, the achievement of international agreement is a matter of great importance and

With regard to auditing, a distinction must be made between the advisory function and the pure audit function. For an auditor to practice his profession properly, he must, as a result of his observations made in the course of his audit, give his client the full advantage of his advice.

In Holland, where, in general, there is no compulsory auditor's examination and where there are no specific rules governing the form and content of the annual accounts, this involves the risk of a clash of interests. The entrepreneur may at times accuse the auditor of letting the interests of the business community prevail over the interests of the company. But it should be realized that the long-range interests of the business community and of the company coincide.

The function of the annual report is twofold: accounting for the company's management during the period under review, and supplying information from which interested parties may draw inferences as to the future of the company.

According to the 'Rules for professional activities' (Art. 14) of the Netherlands Institute, certification by the public accountant should cover not only the factual data of the financial statement but also the explanations relating to these data. The author favours a 'dynamic' rather than 'static' certificate.

Subject: 'Accounting and utilization of resources'. Speaker: Professor W. A. Paton (American Accounting Association). Professor Emeritus of Accounting and Economics at the University of Michigan School of Business Administration. Has been a visiting professor at the Universities of Chicago and California and Harvard.

Summary: It is the central objective of economic effort to maximize output through utilization of available resources - human and material. Accounting plays an important role by providing financial measurement, analysis and reports. There is no sharp line dividing internal from external accounting: all phases of financial measurement are more or less related.

Accountants should be participants in decisionmaking, not mere advisers to those in authority. The current stress on 'independence' and service to the 'public' by the accounting profession should be shifted to an image of competence, integrity and thorough devotion to the interests of the client.

The paper discusses in detail three areas in which improvement of prevailing accounting practices is needed - statement of assets, measurement of earning power, and segregation of non-productive costs. The widespread policy of understating assets is rejected. Proper decisions can be made only on the basis of realistic, accurate measurement. Various areas in which understatement is traditional are subjected to a critical review. Earning power can find meaningful expression only in a fraction with earnings presenting the numerator and assets employed presenting the denominator.

#### SESSION 'F'

Chairman: Mr Harold R. Caffyn, Congress Treasurer. Vice-Chairman: Mr Rollo Ellis McClure, Institute of Chartered Accountants in Ireland.

biect: 'Changes in the purchasing power of money'. Speaker: Mr W. E. Parker, C.B.E. (The Institute of

artered Accountants in England and Wales). Member of the Council of the English Institute; was chairman of Committee on Education and Training. From 1941 till 1945 he served as an Assistant Secretary of the Board of Trade. Is currently President of the Chartered Accountant Students' Society of London.

Summary: The problem is whether accounting should take cognizance of changes in the purchasing power of the money invested in com-



Mr W. E. Parker

mercial activities, and if so, how best to reflect in accounts the effects and consequences of such changes.

But the choice between 'current cost' and 'historical cost' confronts accountants, whether the value of money changes or not. Even if the value of money remained constant, individual prices would constantly fluctuate. The 'current cost' method of accounting is designed to take account of these particular changes.

Under the pressure of events, a number of Governments have from time to time been forced to move in the direction of recognizing changes in the purchasing power of money as a factor of which account must be

The paper contains as discussion points a set of

propositions which the author believes for the present to represent the best practicable solution from the standpoint of the equity stockholder. He does not regard as serious the objection that there is an absence of universally accepted criteria for adjustments in the value of money.

The author submits that, if adopted, the proposals he puts forward would simplify many of the problems now being encountered in producing accounts in one currency of transactions which have taken place in

countries with different currencies.

Subject: 'Statutory financial reporting'.

Speaker: Mr Ebbe Rybeck (Foreningen Auktoriserade Revisorer, Sweden). Member of the Swedish professional organization since 1931. From 1944 till 1949 he served as its President. Graduated from the University of Stockholm with a Bachelor of Commerce degree and completed his law studies there in 1927. Member of the Central Board for Accountants of the Swedish Chambers of Commerce, and is active in civic affairs.

Summary: The Swedish Corporations Act of 1944, as amended in 1950, acknowledges the public interest in the steady development of stock companies. Not only should the interests of stockholders and creditors be considered, but also those of employees and workers.

In its annual report, management has to include an account of its managerial methods and procedures, in addition to the traditional balance sheet and income statement. The auditor's report covers the three sections. The management account must contain a breakdown of payroll expenses and financial remunerations for employees and workers, for management for the directors. Valuation of assets at a level high than original cost must be explained, too. Swed in practice is one of undervaluing. It is considered good business practice.

The auditor must sign the balance sheet and the profit and loss statement, and go on record as to whether or not he has any criticism of the annual report, the corporation's book-keeping methods, is verification of assets, its management, its justification

for higher valuation, etc.

In practice, the auditor's statement seldom voices objections to management's past performance. If he finds questionable practices, he usually settles the matter before issuing his report. If the matter cannot be resolved, it is usual procedure for the management to mention it themselves in their directors' report.

International standards, in English, the author observes, should be set for financial reports and terms, and, he adds, perhaps the time is ripe for an inter-

national accountancy secretariat.

Subject: 'Differences between United States and foreign

reporting policies and practices'.

Speaker: Mr D. E. Browne (Financial Executives Institute (U.S.A.)). Group Vice-President (Finance and Administration) Lockheed Aircraft Corporation. Member of the American Institute and has been active for many years in the Financial Executives Institute. Also a member of the American Accounting Association and the California Society of Certified Public Accountants.

Summary: Mr Browne has had many opportunities of comparing United States and foreign accounting practices. His company has dealings with companies

in six foreign nations, regarding the manufacture under licence of airplanes within the framework of a two-billion dollar programme.

The speaker hopes the Common Market of Western European nations will not promote the hardening in that area of accounting practices which are basically different from the Anglo-American ones. It might be a good idea for universities to include courses in comparative accounting in their curricula.

General goals in international accounting should be: improved comparability of information supplied, greater disclosure, better understanding of practices

adopted by other countries.

Most American corporations want their accountants to do planning, in addition to keeping historical records. This planning consists roughly in developing:

- (a) A master plan a long range projection, usually ten years into the future. The corporation's major decisions are guided by it. It is a combination financial forecast-market survey. If necessary the master plan is updated every two or three years.
- (b) A series of operating forecasts. These extend five years into the future.
- (c) A management budget for the coming year. The first year of the operating forecast for each enterprise becomes the management budget for that enterprise. These budgets contain detailed schedules by month for the same items as do the monthly financial statements. Checks on progress are maintained through comparison with corresponding periods in the past.

#### SESSION 'G'

Chairman: Mr T. Dwight Williams, Past President of the American Institute of Certified Public Accountants.

Vice-Chairman: Mr Arnon R. Rojansky, Association of Certified Public Accountants in Israel.

Subject: 'The need for special reports'.

Speaker: Mr Ian T. Morrow (The Institute of Cost and Works Accountants, England). Fellow and Past



Summary: It is on the basis of ad hoc reports, rather than routine reports, that many of the most important managerial and policy decisions are made. These special reports are much more detailed than are the



Mr Ian T. Morrow

routine reports and cover a narrower field. They may include non-accounting information in addition to accounting data. Experience seems to indicate that it is better for all reports – even purely non-accounting ones – to be scrutinized by the accountant before being presented to management.

The paper discusses types of ad hoc reports frequently called for by management; such as:

Direct costs: The danger of hidden costs lies in

under-utilization of production facilities.

Costs of wages: Incentive schemes should be thoroughly tested from time to time to determine their effectiveness in maintaining a high rate of production.

Overheads: It is part of the normal growth pattern of a healthy company that some blood-letting should

occur from time to time.

Cost of keeping stock: Much research is still needed in this field. There is a general tendency in business to keep stocks larger than actually necessary.

Cost of paper work: Many ad hoc reports tend to become part of the regular reporting system, unless

there is a constant check.

Other reports discussed are those on cost of quality control; cost of sales; cost of research, design and development; cost of communications; analysis of profits; market research and analysis of competitors' performance; and forecasts.

Subject: 'Internal auditing and the world economy'.

Speaker: Mr Cedric C. Slain (Institute of Internal Auditors, U.S.A.). Mr Cedric C. Slain is manager of internal auditing for the International Harvester Co of Chicago. Has just completed a year as President of the Institute of Internal Auditors – one of the sponsoring bodies of the Congress.

Summary: Internal auditing is an arm of management. Its scope will be what the company's management wants it to be. Beyond the checking of forms an approvals, the internal auditor must review the policies procedures and plans reflected in the records.

Modern internal auditing has a responsibility to help management by determining whether executives are adequately informed on progress of their plans; whether policies are being complied with; whether management has the means of appraising performance of those to whom authority has been delegated.

Internal auditors operate in much the same way whether they be in the United Kingdom, Japan, Canada or the United States. This is reflected in the international character of the Institute of Internal Auditors, about 25 per cent of the membership of which is in branches or chapters outside the United States.

Subject: 'Legislation on corporation audits in many

countries needs to be amended'.

Speaker: Dr W. L. Chapman (Federacion Argentina de Colegios de Graduados en Ciencias Economicas, Argentina). Dr Chapman is a partner in a large accounting firm in Buenos Aires as well as being Vice-

Rector of the University of Buenos Aires.

Summary: Many continental European and Latin-American countries refer in their company or corporation laws to 'commissaries', who have broad control over the performance of the board of directors. Yet most of these 'commissaries' need no special accounting qualifications. This is a major weakness of the continental European system. In contrast to this, the Anglo-Saxon system provides no supervisory body or functionary to advise stockholders on the efficiency of the performance of management. The management is directly responsible to the stockholders. Its performance is judged in the light of audits performed by



Mr A. L. de Bruyne (Netherlands Institute) (centre) in conversation at the Congress Reception.

qualified accountants. The development of accounting has been slow in the continental countries and Latin America partly due to the shortcomings of legislation

relating to company audits.

The paper urges the raising of accounting and auditing standards in those countries; the setting up of professional accounting organizations; promoting in business and professional circles the desirability of fair financial reporting; pressing for redrafting of company legislation.

#### SESSION 'H'

Chairman: Mr L. H. Penney, Past President of the American Institute of Certified Public Accountants.

Vice-Chairman: Mr William P. Henson, Australian Society of Accountants.

Subject: 'Published accounts in the Republic of Ireland'.

Speaker: Mr H. W. Robinson (The Institute of Chartered Accountants in Ireland). Holds B.A., LL.B. and B.Com. degrees from Dublin University, and is a member of Council of the Irish Institute.

Summary: Accounting methods practised in Ireland are markedly old-fashioned in their approach. Legislation regulating the conduct of companies in Ireland is English in origin. In essence the English Companies Act, 1908, still applies. According to this Act, there is no obligation on the part of the company to accompany the balance sheet by a profit and loss statement. The auditor's report still uses the 'true and correct' phrase.

A Government Committee on Company Law Reform reported in 1958 that 'under the existing law there is no obligation on a company or on its directors to keep proper accounts . . .'. The Committee has recommended that a new Companies Act should lay down minimum requirements of information to be disclosed by financial statements.

Stock exchange requirements do not relate to the form or content of a company's published accounts. There is therefore great variety in the quality of reporting by companies.

It is expected that a new Companies Act to be

enacted in the near future will incorporate the Committee's recommendations. This hope is reinforced by the fact that the current Minister of Justice, Mr C. J. Haughey, is a member of the Irish Institute of Chartered Accountants.

Subject: 'Accounting in the Federal Government of the U.S.A.'.

Speaker: Mr L. H. Noble (Federal Government Accountants' Association (U.S.A.)). Mr Noble is Deputy Assistant Postmaster-General and Controller of the United States Post Office Department. Member of the American Institute of Certified Public Accountants, the American Accounting Association and the National Association of Accountants. Formerly Controller of the United States Atomic Energy Commission and Comptroller of the Panama Canal Co.

Summary: The Federal Budget of the United States has grown from 517 million dollars in 1903 to 92,537 million dollars projected for 1963. In keeping with the constitutional provision that 'No money shall be drawn from the Treasury but in consequence of appropriations made by law', financial obligations can be incurred – and expenditures made – only after authorizing legislation has been enacted by Congress. Each appropriation made by Congress must be accounted for as a separate fund.

These legislative requirements have had a major effect on United States Government accounting. Actually, the Government prescribed standards of accounting and financial disclosure for private enterprise some years before it undertook in a comprehensive way to bring its own accounting practices up to such standards.

Reform was started with the Government Corporation Control Act of 1945. Accounts had to be audited by the General Accounting Office. Five years later, the Budget and Accounting Procedures Act provided for modernization of accounting and auditing in departments and non-corporate agencies of the Government.

However, since it has been necessary to continue accounting for obligations in one form or another, some agencies continue their accounting primarily in obligations and cash expenditures and convert to accrued costs only at year-end for reporting purposes; others do the reverse, using accrued costs in day-to-day financial operations and converting only to total obligations at period intervals.

There are more than 2,000 certified public accountants in Government service; the Institute has a standing committee on relations with Government agencies. The Federal Government Accountants' Association is very active in holding technical meetings and seminars.

Subject: 'Accountants' reports to management'.

Speaker: Mr Reider Røsjø (Statsautoriserte Revisorers Forening (Norway)). Practises in Oslo. Holds economics degree of Treiders Handelsskole. Member of auditing standards committee of the Norwegian body and also member of its committee on continuing education.

Summary: The paper discusses, first, the role of internal auditors in Norwegian enterprises; secondly, the role of independent auditors and, thirdly, the working relationship of internal and independent auditors.

The section on internal auditors discusses their role in appraising operating controls and ascertaining the standards of compliance of established policies and procedures; their checking on the safeguarding and accounting for assets; their opinions on reliability of company accounting data; the extent of their responsibility in appraising performance of employees.

Activities of the independent auditor are discussed in terms of his opinion of management's adherence to accounting principles; his role in preparing tax statements and reports to regulatory agencies; his passing on adequacy of disclosure and fairness of presentation of financial statements; the extent of his obligation to supply advisory services to management; his observance of a body of auditing standards and procedures.

The relationship between internal and external auditors is discussed in terms of interdependence in the performance of their assigned tasks.

#### SESSION 'I'

Chairman: Mr Thomas D. Flynn, Congress Assistant Treasurer.

Vice-Chairman: Mr T. G. Hull, New Zealand Society of Accountants.

Subject: 'Financial reporting (with special reference to India)'.

Speaker: Mr N. R. Mody (The Institute of Chartered Accountants of India). Senior partner of a leading Indian accounting firm. Holds Bachelor of Commerce degrees from the University of Bombay and the University of London. Former member of the Accounting Board of the Indian Government; currently a nember of the Local Board of the Reserve Bank of India. Also a member of The Institute of Chartered Accountants in England and Wales.

Summary: The Indian Companies Act of 1913 was revised in 1936, and extensively amended in 1956 and 1960. In its successive stages, the Act has striven to assure a greater measure of disclosure and to widen the scope of information given to shareholders. The emphasis has shifted from the balance sheet to the profit and loss statement, to enable shareholders specifically to assess the progress achieved during the year

Requirements are embodied in the form of a schedule which lays down a net form of balance sheet, and minimum disclosure requirements for the profit and loss statement. Though the form has the advantage of ease of interpretation, it has been devised to meet the needs of the banking and insurance concerns. Upon application to the Government, companies may receive permission to depart from the set form. But most balance sheets do conform to it.

There is a tendency to supplement the information given in the balance sheet and the profit and loss statement with the help of appended notes. Another tendency, developed mainly through the influence of American corporations, is of including statistical information on important aspects such as history of earnings, dividends and expenditures under various heads per unit of currency.

Subject: 'The use of standard costs and budgets in the United States'.

Speaker: Mr I. Wayne Keller (National Association of Accountants (U.S.A.)). Holds Bachelor of Science degree and honorary degree of Doctor of Commercial Sciences from Elizabethtown College. Author of several works on cost and management accounting.

Summary: Management accounting in the United States has developed rapidly and is used extensively. The chief accounting officer of a United States company participates in the planning process and is responsible for evaluating, recording and reporting the planned and actual results. This has come to be designated as 'management accounting'. In practice, most companies treat standard cost procedures and budgetary control procedures as complementary. However, there are successful companies which keep planning, measurement and control functions separate from the financial accounting functions.

For direct material usage and direct labour, the standard allowances may be computed on the basis of production units and recorded and summarized simultaneously with the actuals - especially with

machine accounting.

Experience is usually the major determining factor in building expense budgets. Many items of expense cannot be established by scientific measurement.

Until recent years, it was general practice to apply expense to production and thus carry it into inventory values. This is known as absorption costing. Now, many companies have switched to direct costing, particularly for internal reports to management. Standard product costs are developed by the standard direct material, standard direct labour and standard expense rates for each operation through which the product passes. This provides a standard cost for a product at the completion of each product operation. The operating budget provides the principal control device for top management.

Subject: 'Some aspects of the effects of legislation on accounting procedures in the Federation of Rhodesia and Nyasaland'

Speaker: Mr R. G. Wuth (Rhodesia Society of Accountants). Vice-President of the Rhodesia Society of Accountants. He is also a member of English and South African accounting bodies. Partner in an

accounting firm in Salisbury.

Summary: The comparative youth of the Rhodesia Society of Accountants and of the country in which its members practice means that they do not have as much experience as their colleagues in older countries. where legislation is more complex and companies larger. However, many public accountants and senior accountants in business life are members of recognized overseas professional bodies, and many international firms of public accountants are established in Rhodesia.

Shortage of personnel and the limited size of companies are factors holding back the trend toward adoption of all procedures accepted as good current practice in older countries. The Southern Rhodesia Companies Act follows the provisions of the United Kingdom Companies Act, 1948. Rhodesian accountants are greatly influenced by current thinking of the profession in the United Kingdom.

One undesirable outcome of current legislation is that companies tend to limit their disclosure so as to comply only with the minimum requirements of the law. The paper discusses legislative requirements in regard to taxation and their implications for financial

reporting.



At the Congress reception on Sunday evening.



The Fifth Avenue façade of the Metropolitan Museum of Art where there was a special showing for Congress members of the American Wing, Great Hall and Renaissance Collection on Tuesday evening.

#### Session 'J'

Chairman: Mr Perciva Brundage, Past President of the American Astitute of Certified Public Accountants.

Vice-Chairman: Mr Anselmo T. del Rosar Philippine Institute of Certified Public Accountants.

Subject: 'Accounting and the world economy'.

Speaker: Mrs Helene M. A. Ramanauskas (American Women's Society of Certified Public Accountants). Holds M.A. degree from the Technical University of Munich. Also holds the degree of Master of Business Administration from Northwestern University. Became a certified public accountant in 1958. Associate Professor of Accounting at De Pauw University of Chicago.

Summary: Accounting is the forceful instrument available for organizing, expressing and evaluating business and economic facts. It is the quantitative means for disclosure of information essential to the successful conduct of national market economies and for appraising the overall performance of free enterprise societies. It is obvious that with industries operating at high levels of output and distributing in highly competitive markets, cost planning and control are the most vital tasks of modern management. Successful attempts have been made to overcome the weaknesses of the conventional static reporting methods by incorporating means for measuring performance and by developing supplementary reports, special analyses and break-even charts. The new costing philosophy, known as direct or marginal costing, focuses attention on the distinction between variable and fixed costs.

The present-day lack of a co-ordinated system of postulates, principles and rules was caused by the past concern for solutions to immediate problems. Very

little fundamental research was done. To overcome this weakness the American Institute has established an Accounting Principles Board. The founding of a research committee for the study of broad accounting principles to be based on basic postulates is one of the most revolutionary steps in the history of accounting and places the discipline on the threshold of becoming a true science. We now need a permanent international forum to develop a framework of international accounting postulates and principles. This might be done under the auspices of the United Nations World Economics Commission.

Subject: 'Financial reporting in New Zealand: an outline of services available'.

Speaker: Mr D. S. Cox (New Zealand Society of Accountants). Vice-President of the New Zealand Society. Holder of Master of Commerce degree from Auckland University. President of the Auckland Chamber of Commerce, 1955–56.

Summary: The paper describes the organization of the profession in New Zealand, commercial legislation related to the subject and New Zealand practices and standards. The general objective of the paper is to supply the overseas investor with background information he may need when considering investment in that country.

In regard to practise in New Zealand by foreign accountants, the paper states: "The New Zealand Society has reciprocal arrangements with a number of overseas firms practising in New Zealand. If a member of an overseas body wishes to obtain the right to do company audits in New Zealand through membership of the Society, and he wishes to call himself a public accountant, he must reside in New Zealand. He has no difficulty in being admitted to membership provided he is a member of a body with which the Society has reciprocal arrangements and provided he is ordinarily

resident in the country. However, he loses this right if he leaves the country. Furthermore, he cannot practise in the name of an overseas firm but must practise in New Zealand in his own name, or in the name of a partner or former partner who is, or was, a member of the New Zealand Society. The effect of this is that if an international company establishes an office in New Zealand and registers under the New Zealand Act either as an overseas company or through a New Zealand subsidiary, any auditor it appoints in New Zealand must be a member of the New Zealand Society.' There are some exceptions to this rule.

Subject: 'Auditing and the world economy: a contribution from an auditor in South Africa'.

Speaker: Mr W. D. Danks (Transvaal Society of Accountants). A Vice-President of the Transvaal

Society. Member of the Scottish Institute.

Summary: The Republic of South Africa is a country with a comparatively small number of very large industrial undertakings in which public investment is held, and a large number of privately-owned businesses of medium and small size. The profession is regulated by the Public Accountants' and Auditors' Act of 1951 and additional legislation.

The law does not lay down accounting principles, although it does prescribe certain information to be given in accounts. There is no legal requirement, nor is it the custom, for financial statements to disclose total value of sales and cost. From time to time, there has been criticism, though perhaps not always well-founded, that published annual accounts do not make it possible to appraise business activities fully.

South Africa does not yet have a council on auditing standards and procedures. But practise does not show fundamental differences with American standards. However, verification of accounts receivable is frequently rejected as imposing too heavy an administrative burden on the enterprise. Nor does the auditor expect to be consulted on matters of business policy.

The auditor does have an obligation to notify the management if he has reason to believe that material irregularities have taken place or are taking place in the business concern he is auditing. Legislation other than the Companies Act places additional duties upon the auditor, who is generally held to owe a duty not only to his client but also to the public.

#### SESSION 'K'

Chairman: Mr J. William Hope, Past President of the American Institute of Certified Public Accountants.

Vice-Chairman: Mr K. G. Jensen, Föreningen af Statsautoriserede Revisorer (Denmark).

Subject Fluctuating price levels and accounts'.

Speaker: M F. M. Richard (presented a paper written by M Robert Mazars), (L'Ordre des Experts Comptables et des Comptables Agréés (France)).

Summary: Apart from the fact that the total of assets equals the total of liabilities, there is nothing that can be qualified as accurate in a balance sheet, despite its appearance of exactness and finality. Even in the hypothesis of absolute stability in price levels, matters such as depreciation, inventory valuation, accrued liabilities, provisions and reserves are largely matters of opinion. Two things must be emphasized:

(a) Replacement costs in most cases are the result

of subjective valuations, especially in regard to fixed assets, and the effect of inflation varies in intensity depending upon the speed and extent of the fluctuation of prices.

(b) The real profit of a firm still consists in the positive difference between the amount of sales

and the actual cost of goods sold.

Fiscal legislation is the real reason why in every country where corporate taxes exist, and particularly in countries where steep inflation appears regularly, the problem of limitation of profits subject to taxation has been discussed at length. In many cases it certainly would be useful to have two balance sheets – one for fiscal and one for management purposes.

Subject: 'The annual financial report: some comments and criticisms'.

Speaker: Mr G. C. Tootell (The Institute of Chartered Accountants of Australia). President of the Australian Institute. Graduate of the University of Melbourne. Partner in a Melbourne accounting firm.

Summary: In Australia, the influence of regulating bodies has been to establish minimum standards of reporting and disclosure. The stock exchanges have also exerted considerable influence. But there is no Australian equivalent of the Board of Trade in the United Kingdom or the Securities and Exchange Commission in the U.S.A. This means that there is no body that can exercise discretionary power of permitting variations from legislative enactments. The states of Australia have now agreed to enact uniform company legislation.

The law is not specific as to requirements to be met the narrative report by the directors. These reports vary greatly in quality, but it is doubtful whether laws could be framed to determine in all cases the information which a directors' report should contain.

Accountants are faced with the duty of determining what in general circumstances and what in particular cases should be the content of a report which will provide the most useful and important facts for the information of investors within the limits that ensure clarity, simplicity and ease of understanding. This duty cannot be discharged by mere compliance with minimum standards determined by law or regulation.

Subject: 'How accounting firms can help small busi-

nesses through auditing'

Speaker: Mr James P. Ould, Jr. (American Institute of Certified Public Accountants). Partner of an accounting firm in Lynchburg, Virginia; member of the Board of Managers, Professional Development Division of the American Institute of Certified Public Accountants; Member of the Virginia State Bar. Bachelor of Science in Business Administration; attended the Law School in Richmond, Virginia.

Summary: Management of a small business enterprise frequently finds out first from the public accountant what the financial position and business results are. In such cases, the preparation and presentation of audited financial statements are of prime importance to the management itself. The audit of a small business gives the auditor an insight into its operations which will enable him to help management with advice. The management of a small business often cannot afford the services of marketing specialists and other consultants, and therefore has to depend on the advice of the auditor. The auditor can assist in setting up subsidiary records

of fixed assets which will show necessary facts such as cost, date of purchase, location in plant, estimated life,

Another area in which the independent auditor can help his small-business client is financing. He can also help in analysing sales accounts and can show the determining factors for changes in unit costs. Important management information can be contained in a management letter, added to the audit report, which explains and interprets his findings.

#### SESSION 'L'

Chairman: Mr R. Kirk Batzer, Member Congress Organizing Committee.

Vice-Chairman: Mr Mikio Kawai, Shadan Hojin Nippon Koninkaikeishi Kyokai.

Subject: 'Accounting in the public sector'.

Speaker: Mr Norman Doodson (The Institute of Municipal Treasurers and Accountants). County



Mr N. Doodson

Treasurer of Lancashire County Council. President of The Institute of Municipal Treasurers and Accountants. Past President, Association of Local Government Financial Officers. He is also a member of the English Institute.

Summary: This paper is concerned with accounting and financia administration in public sector, the Government and local government bodies and public finance organiza-

tions established by Government action or under Government jurisdiction. Although accounting fundamentals are the same for all types of organizations, there are significant differences in the purposes of accounting in the public as opposed to the private sector of the economy.

The four main purposes of accounting in the public sector are: to give account of stewardship; to aid the formulation and execution of policy; to allow assessment of the economy of operation; and to provide information for the compilation and interpretation of financial statistics. The aspect of accountability to the general public is usually reflected in the statutes establishing public bodies and in regulations imposed by the Government.

A finance officer's responsibility is normally to the body which appoints him, but in the United Kingdom come local government treasurers have a common law ponsibility direct to the taxpayer; this precludes them from disclaiming responsibility for illegal payments by pleading that they were acting in accordance with instructions.

Subject: 'Auditing and bank credits'.

Speaker: Mr Lewis E. Rossiter (American Institute of Certified Public Accountants). Partner in Chicago accounting firm. Holds a B.A. degree from Cornell University and M.S. in Business Administration from Washington University in St Louis. Chairman of American Institute of Certified Public Accountants

Committees on Relations with Bankers and on Specialized Audits.

Summary: There is no larger or more vitally concerned group of third parties interested in the work of the American accountant as an auditor than that comprising the banking fraternity.

In sophisticated banking circles audited financial statements are virtually a necessity for proper credit analysis. Under ideal conditions, all bankers would insist on such reports, and all Certified Public Accountants would render them. However, this cannot always be the case, because of the variety in size, skills, and levels of competence found in banking personnel and

in special client-banker relationships.

Over the years, as the accounting profession has grown in the United States, broadening its concepts and developing and refining its standards, it has been important that the business and financial communities and other groups be informed of these changing concepts and standards, and that certain of these groups be educated in them to the degree necessary for their full understanding of the auditor's functions. With the banking group this educational process has been very important. There is effective and continuing liaison between the accounting profession and banking group. Co-operation has included an analytical survey of audit reports in bank files. It was conducted by the American Institute's Committee on Auditing Procedure, with the co-operation of thirty State societies and 300 banks. The object: to educate both sides to the need for high reporting standards for financial statements submitted in support of loan applications.

Subject: 'Accounting - the soul of free economy'.

Speaker: Dr Juan Rodriguez Lopez (Colegio de Doctores en Ciencias Económicas y Contadores de Uruguay). Graduate of the Escuela Superior de Comercio: has taught accounting at the University of Montevideo. Received his Doctorate in Economics from that university in 1940.

Summary: As Blough has said, since the beginning of this century 'there has been more progress in the development of accounting principles than there had been during several centuries previously'. That is why it is believed that this congress will provide an opportunity to establish an approach to accounting principles.

Accounting was born from practice; only later did the need for principles develop, on the basis of practice. There is no reason for accounting to be different from other sciences, which are nothing but explanations and descriptions of reality. Principles cannot be imposed

by regulatory authority.

As early as 1833, the Frenchman Coffy stated that accounting is genuinely economic in nature. It is much more than mere recording. Postulates on which the edifice should rest have been stated as: quantification, exchange, entities, time period, unity of measure. Add to these: continuity, objectivity, consistency, stable unit, disclosure.

Care should be taken to distinguish between principles and standards. Standards, or rules of procedure can change; principles have a degree of stability. As Kraayenhof has said, they should be based on economically and theoretically sound valuation and profit concepts. Legislation cannot change them. The cause of accounting would be helped if an international committee on accounting principles were created, to coordinate the work done by several national committees.

#### SESSION 'M'

Chairman: Mr John H. Zebley, Jr., Past President of the American Institute of Certified Public Accountants.

Vice-Chairman: Mr Gerald Maxfield, Colegio Nacional de Tecnicos en Contabilidad (Venezuela).

Subject: 'Historical background of accounting postulates and principles in Japan'.

Speaker: Mr Touru Takezaki (Shadan Hojin Nippon Koninkaikeishi Kyokai). A director of the Japanese Institute of Certified Public Accountants; heads own accounting firm in Tokyo. Holds a Bachelor of Commerce degree from the Tokyo University of Commerce.

Summary: The Author sought to clarify the significance of accounting postulates from a historical point of view; it dealt with the historical emergence of accounting principles in Japan and gave an outline of accounting practices and the role of certified public accountants in present-day Japan.

The first step towards a fully developed accounting system was made after the War, with the publication by occupation headquarters in May 1948, of instructions on the preparation of financial statements. Within the framework of occupation policies, the instructions aimed at creating uniformity in form and contents of financial statements.

Further improvement and standardization of accounting methods are urgently needed to encourage investment of foreign capital, democratization of investment policies and rationalization of business enterprises in Japan.

Along with the growing economic democratization of the country, the need for audits of financial statements arose, to assure protection of the investing public. Certified public accountants were made the sole future attesting auditors of financial statements, but public accountants already established in 1948, when the law was adopted, may continue to exercise the attest function.

Subject: 'Financial reporting for small businesses'.

Speaker: Mr W. P. Hutchison (American Institute of Certified Public Accountants). Member of the

Institute's Council and of its Executive Committee; also chairman of Certified Public Accountants Consultation Service Committee and a past Vice-President. Also a member of the National Association of Accountants. Holds a B.A. degree from the University of Oregon.

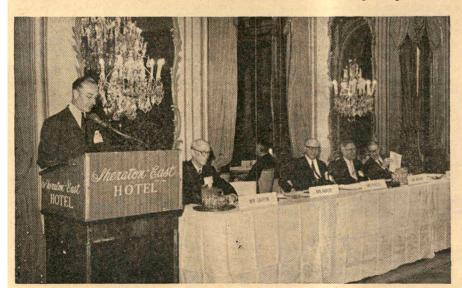
Summary: Proper financial reporting is the lifeline of small business. Unfortunately, there are still too many examples of poor financial reporting. Particularly in periods of prosperity, some small business managements tend to be lax in this respect.

The first responsibility of the independent accountant is to see that management receives timely and comprehensive financial statements which serve as a basis for key decisions. The accountant must interpret the data with management, so that trends are observed, costs analysed, and production controlled. His next obligation is to see that an adequate budget is prepared. This budget should be regularly compared and adjusted as operating results are determined. Regular working capital and cash flow projections should be made on a long-term basis.

Other areas in which the independent accountant can assist management are personnel requirements, pension and profit-sharing plans, as well as on matters concerning corporate structure, estate planning, financing, etc. But the company accountant has prime responsibility for internal reporting. Examples showing the importance of internal financial information are given. They include: expansion of facilities, employee benefits, diversification of production and elimination of unprofitable product lines, automation of accounting systems. These internal financial statements take the of budgets, forecasts, projections; the cash flow statement; daily reports on cash, accounts receivable, accounts payable, production, inventories; interim monthly financial statements etc.

Subject: 'The utility of normalization for accountancy and auditing'.

Speaker: Professor J. Loore (College National des Experts Comptables de Belgique). Graduated in Commercial and Financial Sciences from the Institut Technique Superieur du Commerce in 1949. Has been



Mr W. E. Parker presenting his paper at one of the technical sessions.

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practising as an auditor since 1955 and is Professor of Commercial Documentation and Financial Mathematics at the Institute of Commercial Sciences in Brussels.

Summary: The Congress would fail to live up to its tasks if the opportunity to work for more perfectly standardized principles and procedures of accounting were not used to advantage. The present tendency in the world is toward establishment of a common language in numerous spheres of activity. Why shouldn't the accounting profession be one of them? Accountants, who are not only controllers but also organizers, cannot afford to lag in this respect.

They have to agree on a set of minimum rules to be applied not only on the national scale but internationally as well. The advantages would be, in the economic and financial spheres: a return to healthier concepts of competition; a fairer distribution of governmental aid to enterprises; better protection of the interests of third persons – equity owners, creditors, clients; fairer and more efficient taxation; easier price-control operation in case of an emergency; better co-ordination of laws on transportation, customs, economic unification.

Social advantages would be: better understanding of economic realities on the part of labour; higher productivity on the management and accounting levels.

#### SESSION 'N'

Chairman: Mr John J. Deering, Member Congress Organizing Committee.

Vice-Chairman: Mr Uno Lönnqvist, KHT-YHdistys:

Föreningen C.G.R. (Finland).

Subject: 'German accountants' approach to safeguarding investors' and creditors' interests'.

Speaker: Mr Johannes Semler, Jr. (Institut der Wirtschaftsprüfer). A graduate of the University of Hamburg, has been a practising lawyer since 1953, and a practising auditor since 1955.

Summary: Most accounting principles are recognized internationally. However, German accounting differs when it comes to the treatment of contingencies or distribution of profits. On the other hand, these differences may well be greater in theory than in practice.

In contrast to the U.S.A. (and, generally, also to Great Britain) it is legally permissible and generally accepted to make provisions, within a limited sphere and in a particular manner, against future risks by creating secret reserves through deliberate undervaluation of assets.

As a practical matter, the possibility of building secret reserves is limited to providing for excessive depreciation, excessive writing down of stock, and excessive allowances for bad debts. The whole question of secret reserves is now a subject of intense discussion in Germany. This discussion should be focused on the question whether it is proper to sanction management's right to understate income in profitable years through the creation of hidden reserves and to overstate income in less profitable or unprofitable years through the liquidation of those reserves. In the revision of the German company law currently under consideration, the margin for allowable hidden reserves is expected to be narrowed.

What is needed is identification of important problems requiring internationally uniform treatment. Once this is done, the problems should be brought to the attention of the national professional organizations and Governments for action. Subject: 'Capital budgeting in a manufacturing company'.

Speaker: Mr Roger Wellington (American Institute of Certified Public Accountants). Treasurer of the American Institute of Certified Public Accountants. Also chairman of the Institute's Committee on By-Laws and a member of the Editorial Board. Is a Harvard graduate, with B.A. and M.B.A. degrees.

Summary: It seems incongruous that such a small proportion of the effort of managements of most companies goes into investment decisions, although these decisions are of vital importance to the long-range success of enterprises. In a well-balanced system of financial management, provisions should be made for sound procedures for capital budgeting, as a necessary complement to those for operating expense control.

The author describes current routine capital investment procedures and concludes that they fail to deal with certain very important aspects of capital budgeting. Accrual accounting is useful, but only incidental, in the process of capital budgeting.

The selection of the type of capital investment, and the amount thereof, always involves a choice of various alternatives. Methods now in use for developing criteria against which to measure prospective profitability include the 'Return on investment' method, the 'Pay-out' method, the 'Present value' method and finally the 'Discounted cash flow' method. The latter method, not yet widely in use, consists of tabulating and then reducing or discounting to their present values the cash outgoings and cash incomes of each proposed investment project for each of its future years. That rate of interest or discount which, when applied to the cash flows, each year over the life of the project, will make the total amount of the discounted cash income flows equal to the total amount of the discounted cash outgo flows is the rate of return on the investment.

Subject: 'Auditing in Chile and its influence on the economy'.

Speaker: Mr Leslie Nicol (Sociedad Nacional de Contadores de Chile). Graduate of the Catholic University of Valparaiso, Chile. Partner of an accounting firm in Santiago. President of the Santiago Chapter of his professional organization.

Summary: The independent accountant has had to extend the scope of his activities to include assistance to management in a number of areas. These areas include the design of systems, internal audit programmes, systems of budgetary control, etc. The independent accountant must also continue to contribute towards the general understanding of the capitalist system and the causes of changes in the system. The authoritarian systems which have arisen in the last fifty years will never accept the functions of the independent accountant.

The auditor's activities must continue to be directed towards encouragement of investment of small savings in the economy. Auditors can play a useful role by providing efficient services in behalf of expansion of the economies of Latin America's under-developed countries.

Unfortunately, auditing and its purposes are little known to the man in the street in Latin America. Two factors have so far hindered the growth of the professions: companies do not have to submit financial statements audited by independent accountants; and

auditors are not engaged by the stockholders, but by the directors.

So long as auditing is not considered an essential prerequisite, auditors will not be able to make their full contribution to the development of the economy. Auditing standards and procedures should not be adopted just on a national basis. Only internationally accepted standards and procedures will create the climate of confidence that will allow Latin American countries to develop their economies.

#### SESSION 'O'

Chairman: Mr William P. Stowe, Member Congress Organizing Committee.

Vice-Chairman: Mr A. Underwood, Southern Rhodesia Society of Accountants.

Subject: 'Development of management services in the practices of American Certified Public Accountants'.

Speaker: Mr Kenneth Axelson (American Institute of Certified Public Accountants). Holds a B.A. degree from the University of Chicago. Partner in prominent accounting firm and has responsibility for his firm's management controls practice in the United States. Has had experience as a controller in industry and with a national firm of management consultants. Member of American Institute of Certified Public Accountants' Committee on Management Services.

Summary: Both among the large accounting firms and the small practitioners, management service work is becoming a more and more important part of their practice. It is the most interesting post-war development in American public accounting.

Management services are all aimed at helping management do a better job. From the keeping of accounts and the auditing of accounts, it is only a step to designing accounting systems. American public accountants were doing such work as long ago as the turn of the century. In the period between the two world wars, however, public accountants lost some of their early identification with the advisory aspect of their work, when tax problems and helping companies to meet the requirements of the Securities Exchange Commission absorbed much of their energy.

After World War II, Certified Public Accountant firms with established management service staffs greatly expanded the scope of their work; other Certified Public Accountant firms established such staffs. In 1953 the American Institute of Certified Public Accountants established a committee to help the smaller firms in finding ways to extend management services to their clients, and in 1958 the American Institute inaugurated a series of research bulletins destined further to assist the smaller firms in their field.

Subject: 'Internal Control as it effects the independent public accountant'.

Speaker: Mr F. S. Somekh (Association of Certified Public Accountants in Israel). Senior partner in an accounting firm in Tel Aviv. Vice-President of his Association and a member of the English Association of Certified and Corporate Accountants and The Institute of Cost and Works Accountants.

Summary: The scope of this paper was limited to a study of internal control as it affects the independent public accountant in the planning and performance of ordinary examinations. The position taken in the United States and the United Kingdom applies sub-

The author's two main purposes were (a) to highlight the fact that the study of internal control is the



Ladies' Celebrity Luncheon at *The Americana Hotel*. Mrs Alvin R. Jennings, Chairman of the Ladies' Committee presided, and the speakers were women prominent in business and commerce.

concern of independent public accountants in all countries, and (b) to stimulate the international adoption of generally accepted auditing standards and procedures having the evaluation of internal control as a base, in view of the increasing interdependence of independent public accountants of most countries in the carrying out of audit engagements of enterprises with geographically dispersed branches or subsidiaries.

Subject: 'Financial reporting for local government'.

Speaker: Mr Richard J. McConnell (Municipal Finance Officers' Association (U.S.A.)). Graduate of Duquesne University. Executive Vice-President of the Philadelphia Industrial Development Corporation and President of the Food Distribution Center. Former Director of Finance of the City of Philadelphia. Member of the American Institute of Certified Public Accountants' Committees on Local Governmental

Accounting and on Government Participation.

Summary: The magnitude and character of present-day government demand the same standards in management and fiscal administration as those applied in private enterprise. Behind a long-range physical plan

there must be a long-range fiscal plan.

Where legal provisions and generally accepted governmental accounting principles conflict, legal provisions take, of course, precedence. The report will necessarily indicate where legal provisions cause such deviations from standards. Implicit in governmental accounting is the 'fund' concept – a separate fiscal and accounting entity. Four basic statements included in a financial statement on a general fund are a balance sheet, a statement analysing changes in fund balance a statement comparing actual with estimated reveal, and a statement comparing authorizations with expenditures and encumbrances (commitments).

The very nature of government demands certain types of management reports, such as budget status reports and cash forecasts. Well conceived programme budgets are meaningless without an accounting and statistical recording system which lends itself to timely, accurate and meaningful reports for performance measurement.

#### ENTERTAINMENT

The day concluded on Monday with three types of entertainment specially arranged for Congress members: at Carnegie Hall, a concert by the Philadelphia Orchestra conducted by Eugene Ormandy; at the Town Hall, a concert by Duke Ellington and his orchestra; a motion picture and stage show at the famous Radio City Music Hall.

#### **GROUP DISCUSSIONS**

On Tuesday morning the Congress divided into about 140 small discussion groups, each of fifteen to twenty-five participants, the groups being accommodated in the conference or board rooms of companies and corporations throughout New York City.

#### OFFICIAL DELEGATES' DINNER

A dinner for the official delegates of the participating bodies was held on Tuesday evening at the Hotel Pierre. The Congress President, Mr Arthur Foye, was in the chair and the principal guest speaker was Mr Harold F. Linder, President and Chairman of The Export-Import Bank of Washington. There were also brief remarks by the following regional representatives: Don Roberto Casas Alatriste, of Mexico, for the Western Hemisphere area; Shri Naval R. Mody, of India, for the Asian-Pacific area; Mr Percy F. Carpenter, of the United Kingdom, for the European-African area.

#### CLOSING PLENARY SESSION

The Congress came to a conclusion – except for a grand ball in the evening – on Thursday morning, September 27th. Mr Arthur Foye, presiding, expressed his pleasure and appreciation of the whole-hearted participation of members in all the proceedings of the Congress – technical and social. As to the ninth congress, presumably to be held in 1967, he said invitations had been received from Canada, Mexico, India, Australia, France and Spain. The question would be discussed with all the participating bodies and an announcement made as soon as possible in order to give the selected country ample time for planning and organization. Mr Foye then invited Mr Paul Grady to summarize the technical programme of the Congress.

Mr Grady said that during the course of the Congress some fifty papers had been presented or summarized in technical sessions, with further consideration of the

subjects at the discussion group meetings.

It seemed fair to say, he said, that a profession may be judged by the extent to which it objectively appraises its own strengths and weaknesses and seeks ways and means to improve its usefulness in the performance of its proper functions. Analysis of the papers presented and of the tenor of the discussion meetings clearly demonstrated that, in terms of this criteria, the accounting profession of the free world was in exceedingly sound health. It was all the more pleasing

to report that the evidence of constructive robustness came not only from members engaged in independent public accounting, but from members who were serving as officers of industrial and financial enterprises and in various echelons of government.

Mr Grady then went on to give 'a few impressions' of the technical papers which he considered to be

significant.

#### **Need for International Standards**

Many of the papers presented to the Congress, continued Mr Grady, urged that steps should be taken to hasten the further development, understanding and acceptance of standards of auditing, accounting and reporting on an international basis. This theme had been inherent to an increasing degree in the successive congresses. All of the papers recognized that the key to progress was organized research by the profession, both at the national and international levels. The theme of the technical programme of the present Congress might be briefly stated in three interrelated premises:

(1) The world economy is dependent on flow of capital, international trade and management skilled in the organization of personnel and use of tools to produce goods and services wanted by the people.

- (2) The flow of capital is stimulated by opportunity of profit and confidence in the political and economic stability of the countries comprising the free world.
- (3) The primary function of the independent public accountant in the economy, whether world or national, is the part he plays in maintenance of the mutual confidence which is necessary in business relationships.

If they were in agreement on these premises, it would be difficult to see how there could be disagreement on the necessity for international standards of auditing, accounting and reporting as a means of improving the mutual confidence in business relationships which is our particular responsibility. It had been the concensus of the discussion meetings that agreement on auditing standards should not be a very difficult undertaking since this was entirely a professional matter. In the case of accounting and reporting standards considerably greater difficulties were presented and it would be necessary, through research efforts, to

reach a clearer status nationally as a condition precedent to the development of international standards.

It was certain that the excellent technical papers and stimulating discussions heard during this International Congress would contribute substantially to the attainment of these objectives, but it would be a mistake to let the problem rest on this generality. In conclusion, therefore, he wished to convey to the official delegates from the sixty-two nations attending the Congress an important mandate from the discussion meetings. The mandate was that each delegation specifically charge itself with the responsibility of initiating the necessary research work to develop clear-cut statements of their own national auditing, accounting and reporting standards and that this work be completed in advance of the Ninth International Congress in 1967. Out of this foundation material it would be possible for the profession, on an international basis, to continue the evolutionary process of promoting the highest and soundest of these standards whenever they may exist.

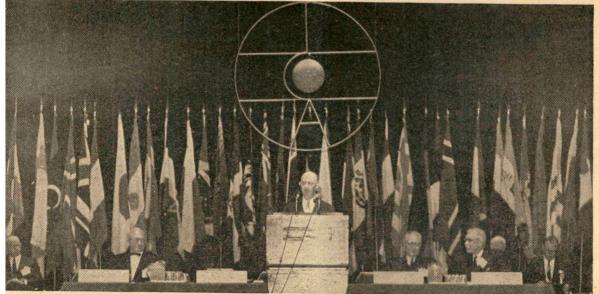
### THE WORLD-WIDE CORPORATION IN A MODERN ECONOMY

Speaking on 'The world-wide corporation in a modern economy', Mr Frederic G. Donner, chairman of General Motors, said in the course of his address:

The growing complexity of business and commerce and the increasingly urgent need for prompt and accurate accounting data have presented the accounting profession with a major challenge. That challenge is being met. The progress you are making in solving problems and in simplifying the complex and the technical speaks eloquently for your professional skill. Accountants directly employed by business as well as those in public practice are today not only concerned with reports to stockholders, creditors and the public but are also supplying management with better data and more useful analyses than ever before.

Accounting is the language of business. In order to serve successfully in the field of international business, accounting must, of course, become more nearly an international language. This Congress and its predecessors have provided a forum for discussing accounting principles and practices as well as differences in auditing standards. I am sure that we all share the hope that, out of these discussions, will come, over the years, the improved understanding that is fundamental to the advancement of international commercial relations.

It is my conviction that the international industrial corporation performs an important service that should be encouraged. Advantages accrue to all countries in which it operates no matter where the parent organization may reside.



Mr Foye speaking at the closing session. Seated on the platform (left to right) Mr Paul Grady, Mr Frederic G. Donner and Mr J. C. Stewart.

From the standpoint of the countries in which subsidiary operations are set up, the result is an investment of capital that in many instances would not be available locally. Technical and managerial skills that, in many cases, could not be otherwise obtained and centres for teaching these skills are also supplied.

Foreign investments bring together human and material resources in the recipient countries. They create good jobs for people who might otherwise be less productively employed and produce goods which might otherwise not be available. Our own experience demonstrates that the development of a managerial group staffed by that country's citizens is often a byproduct of great value. These companies also create new demand for materials, components, supplies and services, and produce tax revenues for local and national Governments. And they increase the capacity to export from the countries in which the investments are made.

From the standpoint of the investing country, once a manufacturing operation is established abroad, a part of the investment is often spent for capital goods and services in the home country. Additional exports from the investing country are also generated in the form of materials, parts and services required to support the new activity. And, most important, the increased level of economic activity in the recipient country supports

and requires a higher level of imports.

The facilities to make possible wider ownership participation in international corporations already exist in varying stages of development in many countries and these should be able to be expanded as the opportunities warrant. Throughout the Free World there are over one hundred organized markets for the purchase and sale of corporate securities.

However, the existence of these facilities does not mean that the goal of true world-wide ownership is easy of achievement. There still exist many obstacles, both economic and political, and I would like this morning to call attention to a few of the more important

economic ones.

A paramount consideration today is the tax barriers that exist – both in the investor's own country and in the home country of the corporation. In many countries there are restrictions on trading in foreign securities. These restrictions, of course, act as a barrier to the free flow of capital and prevent local investors from acquiring securities of foreign companies.

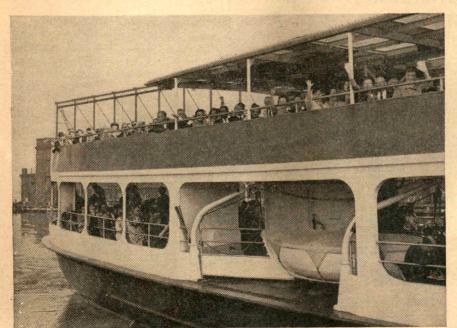
A major obstacle to investment in foreign companies is lack of information about their securities. Many investors hesitate to purchase shares in a company based outside their own country, about whose operations they have little information. And their uncertainty may be increased when the stock certificate itself is written in a language and valued in a currency different

from their own.

Wouldn't it also be possible to make some relatively simple mechanical changes? For example, present practice is to have all the shares of the international corporation printed in the same language. Is there any reason why these shares could not be printed in the language of each country in which the corporation operates? A change such as this is undoubtedly an unnecessary one for the sophisticated investor but, if our goal is to extend and broaden the base of stock ownership, even such a minor change could be helpful. And, towards the same end, the publication of corporate annual reports in a number of languages would appear to be most worth while.

To offer one further suggestion which is in quite a different area but which might further this goal, perhaps international corporations could give more attention to the possibilities of placing stock in the hands of local employees through savings or supplemental compensation or other benefit plans.

Dealing with the problem more fundamentally, could we begin to come to grips with some of the tangible economic obstacles that stand in the way of world-wide ownership of international corporations? What are the possibilities, for example, for having dividends paid directly to the local stockholder in a



Boat trip round Manhattan Island. This was one of the many interesting and varied tours held on the Wednesday -a'free day' for the Congress.

world-wide corporation out of funds made available through the operation of the local subsidiary, in local currency and in amounts equivalent to the parent

corporation's dividends?

If the corporation were to become able to move more effectively in these directions, some relaxation of the many restrictions preventing local security markets from trading in the shares of the international corporation would be required. However, moves which stimulate stock ownership through clarifying the relation of

the international corporation to the local economy, might in themselves encourage a relaxation.

By making possible a broader base of ownership participation in international corporations, the flow of investment funds generally would be stimulated and directed to those countries where they can be of greater use, thereby contributing most effectively to the economic growth we so earnestly seek. It is a natural complement to the rapidly widening acceptance of free world trade.

#### THE FUTURE OF THE ACCOUNTING PROFESSION

The closing address was given by Mr J. C. Stewart, C.A., President of The Institute of Chartered Accountants of Scotland, in the course of which he said:

I have been asked to say something this morning about the future of the accountancy profession as I see it. This is possibly because the Scottish Institute has the longest past and, therefore, if time be regarded as finite rather than infinite, presumably, the shortest and most easily foreseeable future of all the organized bodies of accountants. Even so, so rapid is the rate of technical change that one cannot hope to imagine, much less to describe with any accuracy, the changes

which may yet occur in one's own lifetime.

Accountants have hitherto been criticized, and perhaps justifiably, because their efforts have been thought to be too exclusively directed to ensuring accurate recording of present happenings and then setting out, for the information of others, records of past results. But this was often all that was expected of them by a business community which was then left to draw its own deductions as to the future. The restrictions thus imposed on the services it could render were too readily accepted both by the profession and its clients.

#### Accountants must Look Ahead

Accountants must become more conscious that it is the future that matters, and that their concern with the past must increasingly be only as a basis for forecasting the future. It is interesting to know where we have been, but, unless we are to engage in mere aimless wandering, it is essential to know where we are going or at least aiming to go. Adequate records of where we have been help us to plan where we are going.

Precise records of certain current events and transactions can – and indeed must for obvious control purposes – be maintained. As these records are incorporated into historical accounting statements they tend to lose their quality of precision. There must be constant effort to secure the greatest possible accuracy in all accountancy statements, whether historical or prophetic, but in historical statements designed to serve as a basis for planning the future, it is unnecessary to strive for any greater standard of accuracy than is required to support such forecasting as is possible.

The change in emphasis from past to future may thus be expected to lead to an apparent diminution in the arithmetical precision of accounting statements and to an increase in the importance of skilled judgment and the formation of right opinions. This need not be a matter for dismay. Accountancy, as distinct from book-keeping, never has been an exact science.

. It is the way in which the results produced are



Mr J. C. Stewart speaking at the closing session.

interpreted that is important. The complexity of the data may be increased by the size and scope of a business enterprise, but the fundamental accounting principles are not affected. The principles, however, will be progressively the subject of clearer definition and refinement. Nevertheless, in the future we shall no doubt find as the French say, thus ca change plus c'est la même chose. In spite of the changes in his tools and methods, the functions of the professional accountant as interpreter and independent assessor of financial and economic data will remain his most important functions.

Fluctuations in the value of monetary units have raised many problems both for accountants and economists. The solution of these problems is not made easier by the fact that most accountants know too little about economics and at least some economists seem to know nothing of accountancy at all. This is a matter to which our programmes of professional education must give greater attention as the accountant becomes increasingly concerned with economics and forward planning. Linked with this are problems relating to depreciation and obsolescence and to the proper spread of long-term expenditure. The ever-increasing pace of technical change makes at once more difficult and more necessary the accurate prediction of the

useful life of assets, as affected by wear and tear, by technical change in methods and equipment, and by changes in consumer demand, so that accountants may make a more realistic spread of capital costs.

Many accounting conventions have arisen from the use of accounts purely as a periodic historical report of stewardship to absentee owners, who it seems were presumed to be interested only in the past. Reports and statements based on such conventions may tell them what has been done, though in days of fluctuating monetary value even that is doubtful. Proprietors, absentee or otherwise, should be more interested in what is likely to happen in the future, so that they may take effective action to safeguard their property. There is really no distinction, except perhaps in the extent of detail desirable, between what the shareholder and the manager ought to know. Both wish to know the result of past decisions, the latter in order to adjust his future course, the former to assess how the management, whose decisions have produced the reported results, will react to these results, and what future results that reaction will produce. Both are entitled to look for all the help which a skilled and independent accountant can provide by way of financial reports based on realistic conventions. As a result of growth in the size and complexity of business units, top management is sometimes so remote from the actual day-to-day operations as almost to be called absentee management. If the conventions of the past do not give the absentee proprietor the information he needs, still less do they give this absentee management the information required for the making of right decisions as to future action. It must be one of the continuing tasks of the accounting profession develop new conventions which will more adequately convey the underlying economic facts to those concerned as owners or managers.

#### Difficulties of Communication

It has been a great disadvantage that, for communication involving measurement of values, the only units of measurement hitherto available, the monetary ones, have been elastic units, for as Adam Smith wrote nearly two hundred years ago, 'a commodity which is itself continually varying its own value can never be an accurate measure of the value of other commodities'. Is it too much to hope that with the aid of modern and still developing technical apparatus used under the direction of accountants and economists in collaboration, some more stable unit of measurement of value may be found? There is great scope here for constructive thought by accountants. There must also be standardization of definition, and work on this is going on on an international basis, a notable example being the publication last year of the U.E.C. Lexicon 'Union Europeenne des Experts Comptables, Economiques et Financiers'. This work may be expected to continue, and to diminish progressively the difficulties of communication both between accountants of different countries and between accountants and other users of accounting statements. Standardization of definitions must not, however, be allowed to lead to the formulation of rigidly standardized conventions, codes of procedure and forms of presentation.

The ability to communicate in an intelligent and intelligible manner is, however, not the end of the matter. If the information conveyed is to be of real

value, it must be known to be reliable and not affected by any bias on the part of the reporter. It must also be relevant to the needs of the recipient. There is a distinction between selectivity which stems from the desire to please or to induce a particular reaction, and selectivity directed to the elimination of what is irrelevant to the purpose in hand. The former results from bias, and is a breach of the complete integrity which should be the mark of the professional accountant. The latter is the proper and desirable result of the exercise of the accountant's professional skill. It is thus possible for a professional accountant, without loss of integrity, to present information about the same series of transactions in a variety of forms designed for the service of different users, so long as he makes it clear what he is doing.

#### Future Structure of the Profession

I would like now to consider for a moment or two some observable trends from which some conclusions about the future structure of the profession may be drawn.

First, there is a trend in most countries towards the formation of larger accounting firms by the merger of existing smaller units. The reasons usually advanced for such mergers are that the increasing range of work demands for its proper coverage a firm large enough to embrace partners skilled in all the specialized fields; that the increasing size and spread of client firms requires to be matched by a corresponding increase in the size and spread of the public accountancy firms employed; and that increasing size provides opportunities for better staff training and for the acquisition by partners of a wider range of knowledge and information, thus enabling a better service to be offered to clients. This trend will, I think, I may almost say fear, inevitably continue. It is also true, I think, that as the structure of accountancy practice becomes more complex the more the time of skilled accountants at top level must be devoted to problems of organization and method, leaving less time for the direct exercise of their professional skill. The advantages arising possibly outweigh the disadvantages which result from some loss of personal contact and personal approach because of standardization of methods, but there will, I feel, always remain a role for the really competent individual practitioner, provided he is able as occasion demands to obtain access through the professional Institutes or otherwise to specialized information outwith his normal scope.

The second trend I would note is the extension of the first to the international field, as more and more stocks and shares of companies are quoted on the stock exchanges of countries other than the country in which the company is incorporated; branch manufacturing units are set up by large companies in different countries; and finance is provided for developments in newly industrialized countries.

As a concomitant of the international trend there are movements to provide education in accountancy in the less developed countries. It is important here that what should be provided is education in the fullest sense and not mere technical training. The aim must be to ensure that professional accountants in these new countries share not only our technical skill, but our ethical approach and accept the same moral obligations.

### Finance and Commerce

#### **Two Angles**

ATWO-ANGLED reprint this week sets down the figures of Davy-Ashmore Ltd, a Sheffield company in heavy engineering. Pictures in the annual report show a plant for the production of hydrogen from natural gas built at Maitland, Ontario; blast furnaces built for Colville's Ravencraig works, near Motherwell; and the six-stand finishing train of the 68-inches wide fully continuous hot-strip mill for Richard Thomas & Baldwins in South Wales.

With the annual report to shareholders is a simplified version of the accounts which has been sent to all employees with a few lines of introduction over the signature of one of the directors. This also is included in the reprint, and readers therefore have the two forms of presentation – for shareholders and for employees – to compare, and, maybe, to criticize.

One thing they will notice immediately is the figure of £39,326,000 which opens 'What we earned in 1961-62' in the simplified version of the accounts for employees. It is rather extraordinary to find it there because there is nothing like it in the 'official' accounts provided for the shareholders. It is even more extraordinary in view of what Mr M. A. Fiennes, the chairman, has to say in his statement on the subject of turnover publication.

#### **Next Year's Query**

Mr Fiennes reminds shareholders that 'it is not our practice to publish figures of turnover because, as an indication of activity or of profitability, they can be misleading in a business like Davy-Ashmore and a comparison of one year with another would not necessarily be valid. Due to the relatively long manufacturing time cycle of major contracts, activity may be high and turnover low or vice versa.

Furthermore, turnover may vary without commensurate variation in profit depending on the form of contract undertaken; for instance, Davy and United Engineering Co and The Power-Gas Corporation in particular may supply engineering services with or without the actual supply of plant according to circumstances.

'Nevertheless, it is worth saying this year that the profit shown in the accounts to March 1962 relates to sales of approximately £40 million. It is the result of the work of about nine thousand people putting your investment to constructive use . . .'

Which raises the query: What happens next year? Is the form of 'What we earned in 1961-62' to be

changed because 'it is not our practice to publish figures of turnover' or is it possible 'What we earned' has started something that as the years move forward will be called 'our practice'.

#### City Finance

THE opportunity occurred recently to spend a few minutes with *The City's Finances* a fifty-page booklet issued from the City Treasury of Sheffield, for the year ending March 31st, 1962. It acted as a reminder that it must be quite a long time since there has been any mention of local authority accounts in this column. Municipal accounts are, of course, quite beyond reprint facilities; one can do no more than pick items of interest here and there from the mass of figures.

What really caught the attention was the way the year's work and development in each of the services provided by the city is described alongside or above a summary of the relative figures. It is rather like having in the case of a public company the Notes on the Accounts in the context of the figures and not some pages distant from them.

One item in the preface to this survey prompts a little meditation: 'Many people are finding it increasingly difficult to meet their (rate) account in one payment. The number of requests for payment by instalments has risen sharply.' There was a time when might have been a sign of 'hard times'. Nowath, the whole economy seems to be based on instalments.

#### Explanation

AGOOD word must be given to Stevinson, Hardy & Co Ltd, whose business is indicated by the picture of the tank lorry for fuel and diesel oil on the front cover of the report. This company is putting through resolutions to create capital and to capitalize reserves and to alter the memorandum and to adopt new articles. Matters of this sort are often put before shareholders in brief form apart from the actual resolutions in solid blocks of type in legal style.

This company provides four quarto sheets of reading of which one and one-third carry the legal matter and the two and two-thirds give an explanatory statement that reduces the 'legal' to simple English and explains the reasons why the resolutions are put forward.

Those versed in accounting know it all; not everyone understands – really understands – that what are so often called 'free' shares do not in themselves change a shareholder's interest in a company.

In large measure, the new articles follow the evolution in company law and practice. The existing articles, for instance, were adopted in 1937 in conformity with the 1929 Act. One provision was the dividends should be paid to members registered at the date of declaration. This, it is pointed out, is inconsistent with Stock Exchange practice and no similar provision has been taken into the new articles.

#### DAVY-ASHMORE LIMITED AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account

Year ended 31st March, 1962

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Amount attributal	utable	to I	Davy-/	Ashm	ore SI	nareh	olders,	of w	·hich £	 1,475,4	.: 94	٠		2,577			2,115,8
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Amount attributal  et Profit attrib (£1,514,355) has be  Deduct:	utable een dea	to I	Davy-/ h in th	Ashme e acco	ore Si	arehe	olders, arent C	of w	··· hich £	 1,475,4 	94			-			•
Amount attributal et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc.)	utable een dea ome Ta	to I It wit	Davy-A h in th	Ashme e acco	ore Si	arehi	. , olders, arent C	of w	 rhich £	 1,475,4 	.: 94 		, .	-			•
Amount attributal  et Profit attrib (£1,514,355) has be  Deduct:	utable een dea ome Ta	to I It wit	Davy-A h in th	Ashme e acco	ore Si	nareho	 olders, arent C	of wo	···  which £	 1,475,4 	94		330,692	-		330,692	•
et Profit attributal et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc. Paid—Interim D	utable een dea ome Ta	to I It wit x) pai	Davy-A h in th	Ashme e acco	ore Si	nareho	olders, arent C	of wo		 1,475,4 	94		330,692	-		330,692	•
et Profit attrib et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc Paid—Interim D (6d,	utable een dea ome Ta lividend per shai	to I It wit x) pai of I of I re)	Davy-I h in th id and	Ashme e acco propo	ore Si	areho	olders, arent C	of wo		 1,475,4 	94			-			•
et Profit attrib et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc Paid—Interim D (6d, Proposed—Final	utable een dea ome Ta ividend per shal	to I It with x) pai of 10 re)	Davy-I h in th id and	Ashme e acco propo	ore Si	narehe	olders, arent C	of wo	···		94		330,692 578,711	-		330,692 578,711	•
et Profit attrib et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc Paid—Interim D (6d, Proposed—Final	utable een dea ome Ta lividend per shai	to I It with x) pai of 10 re)	Davy-I h in th id and	Ashme e acco propo	ore Si	narehe	olders, arent C	of wo	···  /hich £		94			2,031,504			2,115,8
et Profit attrib et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc Paid—Interim D (6d, Proposed—Final	utable een dea ome Ta ividend per shal	to I It with x) pai of 10 re)	Davy-I h in th id and	Ashme e acco propo	ore Si	nareh	olders, arent C	of wo	···  chich £		94			-			2,115,8
Amount attributal et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d.; Proposed—Final (104c)	utable een dea ome Ta ividend per shal	to I It with x) pai of 10 re)	Davy-I h in th id and	Ashme e acco propo	ore Si	nareh	olders, arent C	of wo	 thich £		94			2,031,504			2,115,8
Amount attributal et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc Paid—Interim D (6d. Proposed—Final (104c) Add:	utable een dea ome Ta lividend per shan Divide	to I It with of I of re) and of hare)	Davy-A h in th id and 1%	Ashme e acco propos	ore Si	areh the P	olders,	of wo	 thich £					2,031,504 909,403 1,122,101			909.4 1,206.4
Amount attributal et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d.; Proposed—Final (104c)	utable een dea ome Ta lividend per shan Divide	to I It with of I of re) and of hare)	Davy-A h in th id and 1%	Ashme e acco propos	ore Si	nareh	olders, arent C	of wo	thich £					2,031,504			909.4
Amount attributate  et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (104c)  Add: Balance brought for	utable een dea ome Ta lividend per shan Divide	to I It with of I of re) and of hare)	Davy-A h in th id and 1%	Ashme e acco propos	ore Si	nareho	olders,	of wo	thich £					909,403 1,122,101 1,076,672			909,4 1,206,4 375,2
Amount attributate  et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (104c)  Add: Balance brought for	utable een dea ome Ta lividend per shan Divide	to I It with of I of re) and of hare)	Davy-A h in th id and 1%	Ashme e acco propos	ore Si	nareh the P	olders,	of woompai						2,031,504 909,403 1,122,101			909,4 1,206,4 375,2
Amount attributal et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc Paid—Interim D (6d. Proposed—Final (104c) Add:	utable een dea ome Ta lividend per shan Divide	to I It with of I of re) and of hare)	Davy-A h in th id and 1%	Ashme e acco propos	ore Si	nareh	olders, arent C	of w						909,403 1,122,101 1,076,672			2,115,8
Amount attributal et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (104c) Add: Balance brought for	utable sen dea come Ta vividend per shall Divide d. per sl	to I It with of I of re) and of hare)	Davy-A h in th id and 1%	Ashme e acco propos	ore Si	nareh	olders,	of woompar						909,403 1,122,101 1,076,672			909,4 1,206,4 375,2
Amount attributate  et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d., Proposed—Final (104c)  Balance brought for  Deduct: Appropriations: Parent Company	utable een dea ome Ta ividend per sha Divide d. per sl	to I It wit  x) pai of 10 re)  and of hare)	Davy-Ah in the id and 1% 17½% April,	Ashme e acco propos 	ore Si unts of sed:	nareh the P	olders,	of wompar					578,711	909,403 1,122,101 1,076,672	_	578,711	909,4 1,206,4 375,2
Amount attributal  et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (104c)  Balance brought for  Deduct: Appropriations: Parent Company Plant and Mac	utable sen dea come Ta lividend per shar Divide d. per sl prward	to I It wit  x) pai of 10 re)  and of hare)	Davy-Ah in the id and 1% 17½% April,	Ashme e acco propos 	ore Si unts of sed:	nareh	olders,	of wompar						909,403 1,122,101 1,076,672	_		909,4 1,206,4 375,2
Amount attributal  et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (104c)  Balance brought for  Deduct: Appropriations: Parent Company Plant and Mac Subsidiary Comp	utable sen dea come Ta	to I it with the second of 10	Davy-Ah in the id and 1% 17½% April,	Ashme e acco propos 	ore Si unts of sed:	nareh the Pa	olders, arent C	of woompan	which £				578,711	909,403 1,122,101 1,076,672	_	578,711	909,4 1,206,4 375,2
Amount attributal  et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (104c)  Balance brought for  Deduct: Appropriations: Parent Company Plant and Mac	utable sen dea come Ta	to I It wit  x) pai of 10 re)  and of hare)	Davy-Ah in the id and 1% 17½% April,	Ashme e acco propos 	ore Si unts of sed:	nareh	oblders, arent C	of w					578,711	909,403 1,122,101 1,076,672 2,198,773	_	578,711	909,4 1,206,4 375,2 1,581,7
Amount attributal  et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (104c)  Balance brought for  Deduct: Appropriations: Parent Company Plant and Mac Subsidiary Comp	utable sen dea come Ta	to I it with the second of 10	Davy-Ah in the id and 1% 17½% April,	Ashme e acco propos 	ore Si unts of sed:	nareh	olders,	of w					578,711	909,403 1,122,101 1,076,672	_	578,711	909,4 1,206,4 375,2
et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (104c)  Add: Balance brought for Deduct: Appropriations: Parent Company Plant and Mac Subsidiary Company Capital Reserv	utable sen dea come Ta cividend per shan Divide d. per sl corward corward hinery pany— ye	to I It with the with	Davy-Ah in the id and 1% 17½% April,	Ashme e acco propos 	ore Si unts of sed:	the P	olders, arent C	of woompar					578,711	909,403 1,122,101 1,076,672 2,198,773	_	578,711	909,4 1,206,4 375,2 1,581,7
Amount attributal et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (10½c) Add: Balance brought for Deduct: Appropriations: Parent Company Plant and Mac Subsidiary Comp	utable sen dea come Ta	to I It with the with	Davy-Ah in the id and 1% 17½% April,	Ashme e acco propos 	ore Si unts of sed:	march the Pa	olders, arent C	of wompar					578,711 500,000 5,000	909,403 1,122,101 1,076,672 2,198,773	_	500,000 5,037	909,4 1,206,4 375,2 1,581,7
Amount attributal  et Profit attrib (£1,514,355) has be  Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (104c)  Balance brought for Balance brought for Deduct: Appropriations: Parent Company Plant and Mac Subsidiary Company Capital Reservations  Parent Company	utable een dea come Ta lividend per shar l Divide d. per sl corward hinery pany— ve	to I It with the with	Davy-Ah in the id and 1% 17½% April,	Ashme e acco propos 	ore Si unts of sed:	mareh the Pa	oblders, arent C	of w					578,711 500,000 5,000	909,403 1,122,101 1,076,672 2,198,773	_	578,711	909,4 1,206,4 375,2 1,581,7
Amount attributal et Profit attrib (£1,514,355) has be Deduct: Dividends (less Inc. Paid—Interim D (6d. Proposed—Final (10½c) Add: Balance brought for Deduct: Appropriations: Parent Company Plant and Mac Subsidiary Comp	utable een dea come Ta lividend per shar l Divide d. per sl corward hinery pany— ve	to I It with the with	Davy-Ah in the id and 1% 17½% April,	Ashme e acco propos 	ore Si unts of sed:	nareh	oblders,	of woompar					578,711 	909,403 1,122,101 1,076,672 2,198,773	_	578,711 500,000 5,037 683,069 393,603	909,4 1,206,4 375,2 1,581,7

#### DAVY-ASHMORE LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet 31st March, 1962

3											
Fixed Assets (Note 3):						£	1962 £	£	£	1961 £	£
Freehold and Leasehold Land and Buildin	ec					~	3,952,185	-	_	3,756,134	~
Plant, Machinery, Furniture and Vehicles		••	••	••	••		6,278,996			5,529,548	
		••	••	••	••			10,231,181			9,285,682
Trade Investments at cost:											
Associated Companies	••	••	••	••	••		20,100			20,100	
Other		••	••	••	••		110,511	130,611		115,511	135,611
Net Current Assets:								10,361,792		-	9,421,29
									· '		
CURRENT ASSETS:											
Work in Progress (Note 5)	•• ••	• •	••	••	••	27,847,449			29,099,815		
Deduct: Received on account and advan	nce payment	`S	••	••	••	22,590,376			25,014,549	*	
						5,257,073			4,085,266		
Stocks at the lower of cost and realisa	ble value				••	1,455,406			1,353,671		
Debtors, Bills Receivable and Prepaym	ents	••		• •		9,376,933			6,319,244		
<sup>2</sup> Investments—Quoted		••		••	••	780,750			780,750	`	
Market Value £793,026 (£783,019)											
Short Term Loans and Bank Deposits, i					seas	97,500			1,487,500		
Cash at Bank and in Hand, including £3	331,047 (£56	0,818) C	Overseas	• • •	••	446,991	17,414,653		832,076	14,858,507	
Deduct:							.,,,			,000,007	
CURRENT LIABILITIES AND PROVISION	ONS.										
Creditors and Accrued Charges						6,034,143			5,505,242		
Bank Overdraft		••	••	••	••	1,499,706					
Taxation		••	••	••	••	778,724			779,871		
Proposed Dividend less Income Tax		••		••	•••	578,711			578,711		
Provision for Contingent Claims		••	••	••	1	689,112			423,995		
Provision for Pensions		•••	••	••		47,407			51,677		
Frogration for Foliations	•••	••	••	••	1	47,407	9,627,803			7,339,496	
							•	7,786,850		***************************************	7,519,01
•						Y		18,148,642	i		16,940,30
Deduct:						,			1		
Loans:									1		
61% Debenture Stock 1978/83 (Secured)		••	••	••	••		1,600,000			1,600,000	
. 5% Unsecured Loan Stock 1966/71	••	••	••	• •	••		800,000	2,400,000		800,000	2,400,00
										. •	
Total Net Assets of the Group	••	••	••	••, `	••		i	£15,748,642		f.	C14,540,30
Representing:—											
Capital:									***************************************		
Authorised-26,000,000 Shares of 5s. eac	h			••			£6,500,000		ĺ	£6,500,000	
Issued and Fully paid-21,596,224 Shares						•		5,399,056	·		£ 200 05
issued and Fully paid—21,570,224 Shares	Oi JS, Cacii	. ••	••	••	••			3,377,030	ŀ		5,399,05
Reserves:									İ		
Capital Reserves (Note I)							4,402,190			3,894,743	
Revenue Reserves (Note 2)	••	••	••	••	••		3,589,779		1 .	2,972,678	
Kevenue Reserves (Note 2)		••	••	••	••		3,307,777	7,991,969	ł.	2,772,070	6,867,42
								13 201 035			
•								13,391,025	ŀ		12,266,47
Future Taxation:					٠.						
Income Tax 1962/63		••	••	••	••		1,368,111			1,407,846	
Income Tax Equalisation	••	••.	•• .	• •	••		869,126	2,237,237		745,423	2,153,26
•								2,201,201			2,100,20
Outside Shareholders' Interests in Su	bsidiary Co	mpani	les:						1		
Preference Capital—redeemable 1972			•••				100,000			100,000	
Ordinary Capital and Proportion of Rese	erves						20,380			20,558	
and the second s					•			120,380			120,53
Capital, Reserves, Future Taxation and	d Outside S	Shareh	olders'	Inter	ests			£15,748,642		· .	£14,540,30
								-,,	1		
On behalf of the Board of Direct	tors					•					

M. A. FIENNES
H. M. SUTHERLAND

Directors

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# DAVY-ASHMORE LIMITED AND SUBSIDIARY COMPANIES

Notes on the Accounts

Year ended 31st March, 1962

1961 £ 2,706,435 500,000 	£3,452,882	683,069		,		
7, 19 2, 2, 2, 2, 2, 2, 2, 2, 2, 2, 2, 2, 2,	a  -	683,069	_ 	3,756,134		5,529,548 £9,285,682
Parent 1962 £ 2,706,435 1,000,000	£3,952,882 1.583.396	749,160	CONSOLIDATED BALANCE SHEET	£,453,432 697,298 7,499,095	2,407,119 5,091,976 437,572	
up 1961 £ £ 2,706,435 900,000 5,000 283,308	1.896.006	1,076,672	ISOLIDATED	3,952,185		6,278,996
Group 1962 2,706,435 1,400,000 10,000 285,755	£4,402,190	1,693,773	NOO S	4,742,129 789,944 8,653,941	2,823,542 5,830,399 448,597	
i. Share Premium Account ii. Share Premium Account ii. Plant and Machinery Replacement Reserve iii. Preference Share Redemption Reserve iv. General Reserve	2 REVENUE RESERVES	ii. Profit and Loss Account	3 FIXED ASSETS No depreciation is provided on Freehold Land.	Land and Buildings at cost Accumulated Depreciation Plant, Machinery, Furniture and Vehicles at cost at cost	Accumulated Depreciation	

CAPITAL EXPENDITURE COMMITMENTS of the Group not provided for in these accounts are estimated at £532,000 (£693,000).

WORK IN PROGRESS of each company in the Group has been valued on a consistent basis and in the case of certain companies includes part of the estimated profit on contracts substantially completed.

OVERSEAS CURRENCIES. These have been converted as follows:—
Current Assets, Current Liabilities and Revenue at rates ruling at 31st March, 1962.
Fixed Assets at rates ruling at date of acquisition.

## CONTINGENT LIABILITIES

Parent Company
The Parent Company has a contingent liability for loans made by bankers to customers of a Subsidiary Company. At 31st March, 1962, the contingent liability in this respect was £401,000 (£477,000).

Subsidiary Companies

i. Subsidiary Companies have given sundry trade and bank guarantees amounting to approxii. Subsidiary Companies have given sundry trade and bank guarantees amounting to approximatchy £815,000 (£263,000).

II. There is an amount of £90,000 (£90,000) uncalled on partly paid shares of Commonwealth
Development Finance Company Limited.

III. Contingent liability for Bills under discount at 31st March, 1962, amounted to £1,010,000

(£nil), £836,000 (£nil) of which is insured by Export Credits Guarantee Department.

# THE DAVY-ASHMORE COMPANIES

# WHAT WE EARNED IN 1961/62

# OUR BALANCE SHEET IN 1962

£10,362,000			7.787.000	18,149,000 2,400,000 £15,749,000
22,590,000 6,713,000 9,377,000	16,090,000	9,628,000	1,325,000	
,	£6,081,000 1,500,000 779,000	689,000		
Our Land, Buildings, Plant, Machinery, Furniture and Vehicles had a book value of We had in our shoos and in those of sub-contractors, stocks and partly completed work to the value of Our customers had paid us in advance for this work in our shops and those of our sub-contractors  Therefore there was still to be received Our customers owed us for machinery already delivered	Making the total still to be received	We may have to spend money under guarantee on rectifica- tions to machinery supplied to customers. The Shareholders have received an interim dividend of £330,000 and are to receive as a final dividend	Instandour to, for Love 1s the balance owing to the Group and not yet paid.  We also had cash overseas and investments amounting to Thus the amounts owed to us and our cash and investments total	Adding this to the Land, Buildings, Plant, Machinery, Furniture and Vehicles we have a total value of

#### Another Look

IT is worth while having another look at the position of Trinidad Sugar Estates Ltd (previously referred to in the issue of March 24th) in the light of subsequent events. The action group has gained its point and is now represented on the board and Mr E. Cassleton Elliott, C.B.E., F.C.A., whose association with Trinidad Sugar goes back forty years, has resigned as chairman but is remaining as a director.

A trust has been set up to acquire and develop the company's land for shareholders' benefit, conducting its operations through a new Port of Spain Development Syndicate. Land required for sugar production is being leased back until wanted for development. And the prospect ahead has been sketched out by an independent professional valuation of the lands. That, of course, was one of the aims of the action group.

The value of the land and buildings is put by the valuers at £3½ million, a figure that compares with the mere £86,426 for land and £67,761 for buildings shown in the accounts which formed the subject of our reprint on March 24th. The new valuation is to be incorporated in the balance sheet at September 30th, 1962, and from the reserve thus created is to be capitalized the amount required for a scrip issue of nine shares for every one held.

The directors remind shareholders that 'a property valuation is evidence of worth of the asset as a whole and is not necessarily the figure at which they would agree to sell'. Well has it been said that land is the greatest of all assets.

#### CITY NOTES

THE downturn in interest rates remains the main point of City comment within the pattern of the Chancellor's longer term plans for economic reexpansion. The release of £80 million of special deposits pointed the way to easier credit conditions, although it is fully appreciated that availability of bank money does not necessarily mean a quick increase in actual bank lending.

Treasury flotation of £100 million of a new short-dated 'tap' stock in the form of a Treasury 4 per cent 1965 issue will provide an early home for special deposit releases. The new 'tap' stock was announced the day following the special deposit announcement.

A further pointer to the anticipated trend of interest rates was provided in the fresh fall in the Treasury bill rate to virtually  $3\frac{5}{8}$  per cent.

Meanwhile the effect of the rising gilt-edged market is seen in the considerable change which has taken place in the pitch of Corporation issues within the space of two weeks. Dunbarton's  $5\frac{1}{2}$  per cent stock offer at 96 was immediately followed by Hendon's  $5\frac{1}{2}$  per cent offer at 97 and, this week, Liverpool has successfully borrowed on a  $5\frac{1}{2}$  per cent stock offered at  $90\frac{1}{2}$ .

There has, therefore, been 4½ points improvement in new issue terms in a fortnight and, although the pace is not expected to be maintained at that rate, there is still a fairly forceful move in that direction.

#### RATES AND PRICES

Closing prices, Wednesday, October 3rd, 1962

	, ,	Tax Reserve Co	ertificates:	interest rate (28.4	.62) 23%			
-	Bank	Rate	•	Money Rates				
Oct. 27, 10 Dec. 8, 19 July 26, 19 Oct. 5, 196	60 5% 061 7%	Nov. 2, 1961 Mar. 8, 1962 Mar. 22, 1962 April 26, 1962	6% 5½% 5% 4½%	Day to day 7 days Fine Trade Bills 3 months 4 months 6 months	27 37 % 21 37 % 51 6 % 51 61 %	Bank Bills 2 months 3 months 4 months 6 months	3 18 - 3 7 % 3 18 - 3 7 % 3 18 - 3 7 % 3 18 - 3 18 %	
	Treasu	ry Bills		•	Foreign E	Exchanges		
July 27 Aug. 3 Aug. 10 Aug. 17 Aug. 24	£3 17s 8·89d% £3 16s 5·05d% £3 15s 8·84d% £3 15s 8·35d% £3 15s 4·50d%	Aug. 31 £3 153 Sept. 7 £3 144 Sept. 14 £3 153 Sept. 21 £3 144 Sept. 28 £3 123	4.55d% 11.97d% 0.1d% 8.42d%	New York Montreal Amsterdam Brussels Copenhagen	2.80 k 3.01 k 10.07 k 139.32 k 19.38 k	Frankfurt Milan Oslo Paris Zürich	11.202 1.738 % 20.023 13.725 12.113	
Gilt-odgod								

As well as the usual prices quoted at the close of business on press day, we also give below the quarter-end prices - a practice which is followed at the close of each quarter.

		•	•	- 10 3011011011 110 1110 01010 03		- g	
	•	Sept. 28th, 1962	Oct. 3rd, 1962			Sept. 28th,	Oct. 3rd,
~ * 04						1902	1962
Consols 4%	• •	69≹	69 🚡	Funding 3 % 59-69		91&	92
Consols 21 %		458	45 <del>l</del>	Savings 3 % 60-70		89 <del>1</del>	90
Conversion 5 % 1974		104	104 🌃	Savings 3 % 65-75		82 15	83 <del>%</del>
Conversion 5 % 1971		102	102 🕌	Savings 21 % 64-67		92 £	927
Conversion 3½ % 1969		94 <del>§</del>	944	Treasury 5½% 2008-12		95 4	95 ਵ
Conversion 31%		61 <del>1</del>	61 18	Treasury 5 % 86-89		9318	93 16
Exchequer 51% 1966	٠.	103 <del> </del>	103 16	Treasury 3½ % 77-80		817	82 <del>1</del>
Funding 5½ % 82-84		102	102 🕌	Treasury 3½ % 79-81		807	81 <del>1</del>
		9		11casury 3 5 70 79-01	• •	90 g	O1 Å
Funding 4 % 60–90		95 <del>2</del>	954	Treasury 2½ %		448	44 8
Funding 31 % 99-04		68 <del>11</del>	69	Victory 4%		97 <del>\frac{1}{2}</del>	98
Funding 3% 66–68	• •	93 <del>8</del>	93 <del>2</del>	War Loan 31%		62 2	62 🖁

#### Current Law

#### Hire-purchase Agreements Registrable as Bills of Sale

THE plaintiff in North Central Wagon Finance Co Ltd v. Brailsford and Another ([1962] 1 All E.R. 502) was a hire-purchase finance company and claimed in respect of breaches of a hire-purchase agreement by the first defendant, a haulage contractor with whom the agreement had been made, and the second defendant, to whom the benefit of the agreement had been assigned. The purpose of the agreement was to raise £1,000 on the security of a lorry belonging to the first defendant in order to provide the initial payment for the hire-purchase of another lorry. The transaction involved an invoice from a motor dealer to the plaintiff at a price of  $f_{2,250}$  less a payment of £1,250 by the first defendant, which payment was not made. The agreement was later varied, and subsequently assigned to the second defendant, whose performance of it was in effect guaranteed by the first defendant.

Cairns, J., held that the transaction was a loan on the security of the first lorry, and that the hire-purchase agreement was a bill of sale and was void for non-registration, though the loan was recoverable with reasonable interest (which his lordship held to be 5 per cent per annum) as money had and received. Cairns, J., summarized the following propositions as being relevant in determining whether or not a hire-purchase agreement was in law and in fact a bill of sale:

- (1) if a person deliberately, with a clear understanding of what he is doing and with all appropriate formalities, sells his property to a finance company and then hires it back under a hire-purchase agreement, the agreement is not a bill of sale;
- (2) if the purpose of the transaction is to enable the hirer to dispose of the property to a customer, the Courts will the more readily hold that the agreement is not a bill of sale;
- (3) if the hire-purchase agreement is a mere device to cloak a loan, the document is a bill of sale;
- (4) in considering whether the real transaction is one of loan, it is necessary to look behind the documents to discover its true nature;
- (5) if the facts are not truly stated in the documents, this is a circumstance tending to show that the documents are a mere cloak.

#### Omission of Words from Will

WHERE it is clear that a testator has accidentally omitted words from his will but it is possible to obtain from the context guidance as to what words were intended the Court in construing the will can supply the missing words. This occurred in Re Riley's

Will Trusts, Riley and Another v. Riley and Others ([1962] I All E.R. 513). The testator, after directing that his residuary estate should be held on trust for his children in equal shares and that his trustees should retain the share of each child and hold it on trust to pay the income thereof to such child for life, went on to provide by clause 13 that after the death of such child his or her share should 'be held in trust for all or any one or more exclusively of the others or other of the issue whether children or remoter descendants of the child of mine so dying who being male shall attain the age of twenty-one years or being female attain that age or marry and if more than one in equal shares'.

Buckley, J., said that it was perfectly clear that the testator in the earlier part of that clause was contemplating that someone should have power to exclude members of the class of beneficiaries from taking, that is to say, that there would be a power of appointment. There were words at the beginning which suggested that the power was going to be introduced, and words at the end appropriate to a trust in default of appointment. His lordship was satisfied, having regard to other terms of the will, including a trust for accrual in the event of a child of the testator having no child who attained a vested interest, that the intended trust in default of appointment must be confined to children of the life-tenant, and that there should be interpolated after the words 'the child of mine so dying' in clause 13 the words 'as such child of mine so dying shall appoint and in default of appointment upon trust for the children of the child of mine so dying', and he made a declaration accordingly.

#### Non-registration of Charging Order

DE Overseas Aviation Engineering (G.B.) Ltd R([1962] 1 All E.R. 930) was an application by the joint liquidators of the company to decide the validity of a charge under a charging order obtained by a judgment creditor. Cautions in respect of the charging order nisi and absolute were duly registered under the Land Registration Act, 1925 (the land being registered land), but the orders were not registered with the Registrar of Companies under section 95 of the Companies Act, 1948. Subsection 2 (d) of that section applies it to 'a charge on land, wherever situate, or any interest therein', and subsection (1) renders void against the liquidator and any creditor a charge within the section which is not registered as thereby required. Section 35 (3) of the Administration of Justice Act, 1956, provides that a charging order 'shall have the like effect . . as an equitable charge - created by the debtor under his hand', and Pennycuick, J., held that the effect of this was to give the charge in question the same characteristics as such an equitable charge, including liability to avoidance by the liquidators by reason of non-registration under section 95 of the Companies Act, and accordingly the charge was void. It is understood that this decision is under appeal.

#### Reviews

#### Differential Distribution Cost and Revenue Analysis: A New Approach

by Frank H. Mossman. (Bureau of Business and Economic Research of Michigan State University, East Lansing, Michigan, U.S.A. \$1.)

In dealing with selling and distribution costs, most textbooks are in general agreement about the functional headings under which such costs may be analysed – advertising, personal selling, transportation, warehousing, and credit control being a typical list. It is often desired to make further objective analyses, by location or product, or to express the results statistically in relation to some unit indicative of functional performance – selling costs per orders taken; transport costs per ton-mile; and so on.

Mr Mossman's purpose in this short work is to examine the factors affecting functional costs per unit of product, with the objective of establishing standard unit costs of distribution and selling under varying combination of factors. Such standards are then available in planning marketing policy and in assessing actual cost performance. The procedure outlined is as follows:

(1) to select the factors appropriate to the business concerned; the number of factors used being kept to a minimum consistent with the analysis of all significant costs. The author selects seven representative factors, including market density, distance of market from point of shipment, and the average size of order;

(2) to decide which are the primary and secondary factors affecting the unit cost under each functional heading. Advertising costs per unit, for example, are assumed to be determined primarily by the customer's knowledge of the product ('market knowledge'), and secondarily by market density. In theory one could develop the study into tertiary factors and beyond; but the exercise is obviously designed to be within the capacity of the accountant without exceptional mathematical training;

(3) to decide on gradations for each of the factors. For market density five gradations are suggested, ranging from 'twenty or less customers per square mile' to 'over eighty customers per square mile'. These gradations will be based usually on the result of market surveys or the analysis of historical records.

historical records;

(4) to establish the functional cost per unit for each gradation of the primary factor;

(5) to establish the primary factor cost per unit for each gradation of the secondary factor;

(6) to tabulate product unit costs of selling and distribution for various combinations of primary and secondary factors, the original functional analysis having now disappeared.

It is obvious that the value of the exercise will

depend on ability to achieve stages (4) and (5), on which no general guidance can be given. It may be said, however, that the calculation of such functional costs is not more nor less difficult than the analysis of costs between 'fixed and variable'; and that the achievement of factoral analysis will to a large extent eliminate the need for the latter exercise.

#### Green's Death Duties

#### Fourth (Cumulative) Supplement to Fourth Edition

by D. J. LAWDAY, LL.B., Barrister-at-law, and E. J. MANN, LL.B. (Butterworths & Co (Publishers) Ltd, London. 12s 6d net.)

This supplement brings Green up to October 1st, 1961, and reproduces the Double Taxation Relief (Sweden) Order, 1961, as well as discussing its provisions. There is a full discussion of Coutts & Cov. C.I.R. and its repercussions on the practice relating to the 'surviving spouse' exemption, as well as a discussion of the important case of Philipson-Stow v. C.I.R.

#### Mental Hospitals at Work

by Kathleen Jones, Ph.D., and Roy Sidebotham, B.A.(COM.), A.A.C.C.A., A.I.M.T.A., A.R.A.N.Z. (Routledge & Kegan Paul Ltd, London. 30s net.)

In this book the authors, a social scientist and an accountant (who has since been appointed Professor of Accounting at Victoria University, Wellington), with special interest in social problems, report the findings of a study of the organization and operation of mental hospitals, their problems and their achievements, their use of resources in money and manpower and equipment, and the techniques by which their efficiency can be measured.

The book contains a number of tables of comparative cost statistics for the three hospitals investigated and interesting explanations to account for the variations in cost under a variety of subjective headings. These show the dangers of accepting unit cost figures at their face value.

#### RECENT PUBLICATIONS

AN OUTLINE OF ESTATE DUTY IN SCOTLAND, by G. Herbert Brown, M.A., LL.B., J. K. W. Dunn and John M. Halliday. M.A., LL.B. xix + 118 pp. 7½ × 5. 25s net. W. Green & Son Ltd, St Giles Street, Edinburgh.

HIRE-PURCHASE LAW AND PRACTICE, by R. M. Goode, LL.B.(LOND.). liv+562 pp. 10×6½, 775 6d net. Postage 2s 3d extra. Butterworth & Co (Publishers) Ltd, London. THE INVESTOR'S Vade Mecum, by Charlotte Square. viii+140 pp. 7½×5. 105 6d. William Blackwood & Sons Ltd, London

DESCRIPTIVE ECONOMICS, second edition by C. D. Harbury. x+269 pp. 7½×5. 14s. Sir Isaac Pitman & Sons Ltd, London.

These books may be obtained from, or through, Gee & Co (Publishers) Limited, The City Library, 151 Strand, London WC2.

### Ashridge —

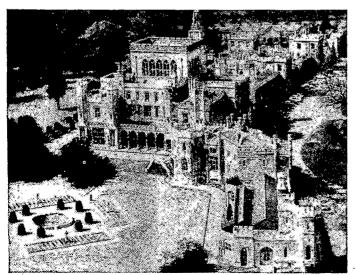
#### 'Staff College' for Management

IT is 700 years since a college was established at Ashridge by a monastic order, and since then the historical process, in full cycle, has moved through the stages of a Royal residence for Elizabeth Tudor, a private house for the Duke of Bridgewater and, in this century, a college of citizenship.

#### **Present Role**

In 1959 Ashridge College was reopened in its present role as a residential centre for management study, to offer a service to industry and commerce in providing courses with particular emphasis on middle-management development. It is supported by leading British industrial companies and its distinguished Council of Governors has as its chairman, Sir Hugher Beaver, K.B.E., LL.D., M.INST.C.E., M.I.CHEM.E., M.E. W. Mr Kenneth H. Adams, F.C.A., is one of the members. The educational staff, who are responsible for the direction of the courses, have been drawn from the ranks of practising management, in order to blend effectively direct experience and academic qualifications.

Ashridge courses are offered as a complement part of a manager's education and training. The number of companies which reinforce their internal training with external courses is increasing. Ashridge now offers six one-month development courses for middle to senior managers, together with a varied programme of one-week short courses on special topics as shown in the College prospectus. In the one-month courses, some thirty to fifty managers from all kinds of organizations — manufacturing and service industries, banking, insurance, Government, at home, from Europe and overseas — are brought together and by



Ashridge College, Berkhamsted, Herts - from the air.

means of lectures, discussions, syndicate work on projects, case studies, business games, etc., learn quickly and effectively something of the problems involved in general management.

#### **Main Aspects**

There are three main study aspects of such a course:

- (1) The environment in which an enterprise operates the political, socio-economic and technological changes of today.
- (2) The functional aspects of a company finance, production, marketing, etc. – and their integration in the model of an enterprise.
- (3) The personal arts of communication and the managerial skills of planning, executing and controlling the activities of an organization.

A great deal of value results from the bringing together of such a varied group of managers for a month's residence, in that they are able to help each other by sharing experience. There is an increasing body of opinion which has come to realize that the basic training which a man receives in any one of a number of professional qualifications – in accountancy, engineering, salesmanship, etc. – is only the beginning of management education, and that the most difficult transition in his career is from the skills of specialist management to the balanced vision and insight of the general manager.

#### Accountants and Management

Finance in its broadest aspect is an important part of the monthly courses. In addition to an introduction

to company accounts for the non-accounting members, the enlarged role of the accountant in modern industry is considered; some explanation of the whole wide range of his activities is given, but perhaps more usefully, some aspects, with practical illustrations, are considered in depth on each course. Emphasis is laid on the services which the accountant should provide for management, so that decisions can be taken in the light of relevant, up-to-date information, and attention is drawn to the fact that frequently – and increasingly so – the accountant finds himself leaving the pure accounting realms and taking his place with top management – or indeed as 'the top manager'!

In its first three years as a management centre, the twenty-one one-month courses held at Ashridge were attended by some 656 members from 367 home and overseas companies. In the same period there were twenty-three short courses attended by 550 members. The College also provides facilities for courses and conferences arranged by other organizations.

#### Notes and Notices

#### PROFESSIONAL NOTICES

Mr Donald Cunningham, Certified Accountant, of Noah's Ark Cottage, Kemsing, Kent, announces that he is commencing full-time practice with effect from October 1st, 1962.

The partners of Messrs Deloitte, Plender, Griffiths & Co announce with great personal regret the retirment on September 30th, 1962, of Mr C. R. Goulder, f.c.a. Mr Goulder joined the London office in 1912 and after service in the First World War rejoined in 1921 and became a partner in 1934.

Messrs James, Edwards & Co, Chartered Accountants, announce that Mr J. F. Hendre, A.C.A., who has been a member of their staff for a number of years, has been admitted to partnership as from October 1st, 1962.

Messrs Evans Smith, Boothroyd & Co, Chartered Accountants, of 99 Fenchurch Street, London EC3, announce that Mr George Flower, f.c.a., retired from the firm with effect from September 30th, 1962. The practice will be continued by the remaining partners and Mr Flower will be available in a consultative capacity.

Messrs T. C. Garden & Co, Chartered Accountants, of 25 Rutland Square, Edinburgh 1, announce that they have admitted Mr K. J. Garden, c.a., and Mr W. W. McVicar, c.a., to partnership as from October 1st, 1962.

Messrs Hodgson, Harris & Co, Chartered Accountof Hull, London and elsewhere, announce that Mr T. B. Campsie, F.C.A., and Mr J. H. Capey, F.C.A., who have been with the firm for many years, have been admitted as partners on October 1st, 1962.

MESSRS McLINTOCK MANN & MURRAY, Chartered Accountants, of 33 King William Street, London EC4, announce that Mr Alasdair G. Barclay, c.a., was admitted to partnership on October 1st, 1962.

Messrs Festus Moffat & Co, Chartered Accountants, announce that for the convenience of clients in the West Lothian area they have opened a branch office at 14 Hopetoun Street, Bathgate. Telephone: Bathgate 2075.

Messrs H. Overton, Salt & Co, Chartered Accountants, Birmingham and Sutton Coldfield, announce that Mr Kenneth Hope, A.C.A., of the Birmingham office, and Mr John Robert Fletcher, A.C.A., of the Sutton Coldfield office, both of whom have been associated with the firm for a number of years, have been admitted to partnership as from October 1st, 1962.

Messrs Peat, Marwick, Mitchell & Co, Chartered Accountants, announce that the address of their Leeds office from October 8th, 1962, will be Airedale House, Albion Street, Leeds 1. Telephone: Leeds 20331.

Messrs Price Waterhouse & Co, Trinidad and Tobago firm, announce the retirement on September

30th, 1962, of Mr T. J. HORT, F.C.A. Mr J. A. Low, C.A., has been admitted to partnership as from October 1st, 1962.

Messrs Russell, Durie Kerr, Watson & Co, Chartered Accountants, and Messrs Tyler & Wheat-croft, Chartered Accountants, announce that they have amalgamated their practices as from October 1st, 1962. All the partners practising in Messrs Russell, Durie Kerr, Watson & Co and in Messrs Tyler & Wheatcroft (other than Mr R. G. Watchorn, who has retired from the firm) have become partners in the amalgamated practice. For the time being Messrs Tyler & Wheatcroft will conduct their practice from their present address at Norfolk House, Smallbrook, Ringway, Birmingham 5, until such time as sufficient accommodation can be found for them in the offices of Messrs Russell, Durie Kerr, Watson & Co at Lombard House, Great Charles Street, Birmingham 3.

Messrs Sinclair, de Mesquita & Co, Chartered Accountants, of 118 Old Broad Street, London EC2, announce that Mr S. A. Sokel withdrew from their firm and from Sinclair Furman & Co, Chartered Accountants, of the same address, on September 7th, 1962. As from October 1st, 1962, Mr G. M. Graff, is joining both firms as a partner.

MIESSRS SINGLETON, FABIAN & Co, Chartered Accountants, announce that they are moving to new offices at Lee House, London Wall, London EC2. Telephone: Metropolitan 9631.

Messrs Howard Smith Thompson & Co, Chartered Accountants, announce that they have taken into partnership Mr A. C. S. Horden, A.C.A., as from September 30th, 1962.

MR G. C. Summers, c.a., has been assumed a partner in A. T. Niven & Co, Chartered Accountants, and in Touche, Ross, Bailey & Smart, Chartered Accountants, 15 Melville Street, Edinburgh 3.

Messrs Thomson McLintock & Co, Chartered Accountants, and Messrs Aston, Wilde & Co, Chartered Accountants, announce that their practices in Birmingham are to be amalgamated as from November 1st, 1962. The joint practice will be carried on for the time being in the names of Thomson McLintock & Co and Aston, Wilde & Co from 5 St Philip's Place and 45 Newhall Street. The partners resident in Birmingham will be Messrs H. B. T. Wilde, H. M. Pritchard, V. F. Stedeford, A. A. Davies and Wm. Parker.

Messrs Hartley Turner & Son, Chartered Accountants, of Lloyds House, Albert Square, Manchester 2, announce that on September 30th, 1962, Mr E. Gordon Turner, M.C., F.C.A., retired from practice in the firm which was founded by his father in 1885, and with which he has been associated for some fifty years. The practice will be continued in the same name by the remaining partners, two of whom served their articles with Mr Turner or his father.

#### **Appointments**

Mr R. F. Daly, F.C.A., chief accountant and member of the board of the Fatstock Marketing Corporation Ltd, has been appointed a director of the Corporation's meat processing subsidiary, Marsh & Baxter Ltd.

Mr George D. Verity, B.COM., A.C.A., has been appointed a director of Yorkshire Fine Woollen Spinners Ltd.

Mr Bernard Franklin, F.C.A., has been elected a director of United African Explorations Ltd.

#### **OBITUARY**

#### Jack Whittle, B.Com., F.C.A., F.I.M.T.A.

It is with regret that we record the death on September 21st, at the age of 63, of Mr Jack Whittle, B.COM., F.C.A., F.I.M.T.A., treasurer of Nottingham County Council and a Past-President of The Institute of Municipal Treasurers and Accountants.

Educated at Bury Grammar School, Mr Whittle joined the Royal Artillery at the outbreak of the First World War. He was commissioned at the age of 19 and served in Egypt and Palestine. On demobilization he entered Manchester University obtaining his degree in commerce in 1922. Admitted an associate of The Institute of Chartered Accountants in England and Wales in 1926 and elected a fellow in 1960, he was, for a time, in private practice before becoming associated with local government. He was admitted an associate of The Institute of Municipal Treasurers and Accountants in 1930 and was elected to fellowship in 1939.

Before moving to Nottinghamshire, Mr Whitele had held appointments with Durham County Council, Bury County Borough, Stetford Urban Council (Lancashire) and served as deputy borough treasurer at Wolverhampton and deputy county treasurer to the West Riding County Council. He was appointed treasurer to Nottingham County Council in 1939. For many years, he was financial adviser to the County Councils Association. He was also honorary auditor of the Nottinghamshire Playing Fields Association and a member of the finance committee of the Nottinghamshire British Red Cross Society. Apart from his extensive interests in local government affairs he found time to take an active interest in the affairs of the Institute of Public Administration and was largely responsible for the formation of the East Midlands Group.

Mr Whittle was elected President of The Institute of Municipal Treasurers in 1951 and served on the Council of the Institute from 1944-60.

#### **DEFENCE BONDS: CONVERSION OFFER**

The Treasury has announced that a conversion offer will be made to holders of  $3\frac{1}{2}$  per cent Defence Bonds (Conversion Issue) issued on January 1st, 1953, and

maturing on January 1st, 1963, of which £5.2 million are outstanding.

These holders will be invited to exchange their holdings into 5 per cent Defence Bonds (Second Conversion Issue) on January 1st, 1963. Holders who accept the offer of conversion will receive a final interest payment of six months' interest a 3½ per cent per annum on January 1st, 1963. Acceptance of the offer of conversion will not involve any break in the holders' encashment rights. If the offer is not accepted, interest on the maturing bonds will cease with the payment due on January 1st, 1963. The terms of the new Conversion Issue Bonds will be the same as those of the 5 per cent Defence Bonds currently on sale except that interest will be payable on January 1st and July 1st. The lists of acceptances of the conversion offer will be closed on October 26th, 1962.

#### LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

#### Meetings on the Common Market

Due to the good response to the announcement of the series of meetings on the European Common Market to be held by the London and District Society of Chartered Accountants, the meetings will now take place at The Chartered Insurance Institute, 20 Aldermanbury (near Guildhall) and not in the Oak Hall of the Institute as announced in our issue of September 8th.

#### **Taxation Conference**

A residential taxation conference organized by the London and District Society of Chartered Accountants is to be held at the Metropole Hotel, Brighton, from the afternoon of Thursday, November 22nd, until the afternoon of Saturday, November 24th.

The conference will be opened by Mr P. F. Carpenter, F.C.A., President of The Institute of Chartered Accountants in England and Wales, and will be under the chairmanship of Mr D. S. Morpeth, B.COM., A.C.A. There will be four papers: "Taxation in a modern economy', by Mr J. F. Chown; 'Organization of taxation work in an accountant's practice', by Mr G. H. Vieler, F.C.A.; "The taxation of interest and dividends', by Mr J. L. Wannan, F.C.A.; and 'Recent legislation regarding property transactions and the 1962 speculative gains tax', by Mr M. Nolan. There will also be a 'brains trust' comprising the above speakers under the chairmanship of Mr H. A. R. J. Wilson, F.C.A.

In the event of the conference being oversubscribed a ballot will be held. Applications to attend should be made not later than October 12th, but will not be acknowledged until the result of any ballot is notified. Further information, is available from the secretary of the Society, Mr J. W. G. Cocke, T.D., M.A., F.C.A., 2 Norfolk Street, London WC2.

#### JOHN FOORD & COMPANY

56 VICTORIA STREET, LONDON, SWI

Telephone: Victoria 2002 (3 lines)

REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

#### CITY DISCUSSION GROUP

The first meeting of the 1962-63 session of the City Discussion Group of the London and District Society of Chartered Accountants will take place on October 10th at 6 for 6.30 p.m. at the Tiger Tavern, 1 Tower Hill, London ECr, when the topic for discussion will be 'Impact of current developments in computers on the auditor', and introduced by Mr A. d'Agapayeff,

The Group's meetings which are of the normal one and a half hours' duration, are held monthly and are open to accountants whether in practice, industry or commerce and are designed to give members of the profession an opportunity to keep abreast with current affairs affecting the profession.

The honorary secretary of the Group is Mr D. S. Lewis, F.C.A., A.A.C.C.A., c/o Alex Parkes, Westmacott &

Co, 3 Copthall Buildings, London EC2.

#### THE SHEFFIELD AND DISTRICT CHARTERED ACCOUNTANT STUDENTS' SOCIETY

The seventy-first annual report of the committee of The Sheffield and District Chartered Accountants Students' Society, presented at the Society's recent annual general meeting, shows that membership at March 31st, 1962, totalled 263 ordinary members and

134 honorary members.
The Society's winter programme comprised nine evening lectures at which the average attendance was slightly over thirty. Saturday morning lectures were again held throughout the year and enjoyed an increased attendance which the committee consider was due partly to the introduction of a two-year syllabus. The fourth residential course took place at the University of Nottingham at the end of September in conjunction with the students' societies of Leicestershire and Northamptonshire and of North Lincolnshire. The report notes with regret that out of the total number of seventy-five students who attended, only ten were from Sheffield. Social functions included the President's annual sherry party for new members, a car treasure hunt and the Society's seventh annual dinner-dance in February. At sport, association football, cricket and squash matches were played.

#### THE ACCOUNTANTS' CHRISTIAN **FELLOWSHIP**

'What do I do?', will be the title of a discussion for students at 6 p.m. on Wednesday October 10th, in the Oak Hall of the Institute of Chartered Accountants, Moorgate Place, EC2. There will be free discussion of the Christian aspects of any of the problems which are common to the student accountant; How do I work, how do I think, how do I speak, how'do I behave? There will be tea before the meeting.

#### SEVENTY-FIVE YEARS AGO

From The Accountant of October 8th, 1887

From a leading article:

**Building Societies** 

SCARCELY a week passes without affording some striking instance of the muddle in which building society legislation is at present, or the incapacity and mismanagement which but too commonly characterises the conduct of such societies. The Co-operative Building Society of Swansea has collapsed. It is found that loans to the amount of £4,800 have been accepted by the directors at a time when the borrowing powers of the society had been exhausted. Notice has accordingly been given by the solicitors to the society to the lenders that the society cannot legally pay the interest on such loans or repay the principal moneys. The lenders have served writs on several of the directors who, it is said, "are respectable tradesmen in the town". We have no desire to minimise the value of the qualities comprised in the word "respectable"; they are not so commonly met with as to be contemned. But respectability is no excuse for men who dabble in what they do not understand, nor should it constitute the slightest defence to any action by people who have found to their cost that respectability and financial ignorance amounting to financial lunacy are not incompatible.... The legislation relating to ilding societies should be altered so as, amongst other things, to prohibit them from borrowing, to give the Registrar of Friendly Societies more control over them than he has at present, and to direct an independent periodical audit of their accounts and a report to all members, of which audit the Registrar should take more or less official cognisance, and which he should, if needful, be enabled to enforce in cases of defaulting societies. Amongst many minor improvements, there should be a strict prohibition against the present very common and regular practice of building society officials trustees more especially-requiring fees from lenders who apply for or desire to repay loans, or who may wish to otherwise deal with deeds of property, unless such fees are brought into the society's account and clearly shown to have been paid. At present officials of the kind indicated get a tolerably fair recompense for very little trouble, and at the same time earn amongst the members a reputation for disinterested, philanthropic, and unpaid labour which is not altogether deserved.

MOTOR — FIRE — CONSEQUENTIAL LOSS

#### CAR & GENERAL INSURANCE CORPORATION

83 PALL MALL, LONDON, SW1

#### LONDON STUDENTS' COLUMN

#### News from the London Chartered Accountants Students' Committee

The committee is back at work with none of its verbal fluency impaired by its two-month recess. Congratulations to two of its members, Messrs M. A. Line and T. G. N. Sylvan, on passing their Finals were not unmixed with that unholy joy which goes with demonstrating to principals the error of their ways committee work is not necessarily a bar to academic achievement.

#### Vacancy

The filling of the vacancy left in the committee by the resignation of Mr B. K. P. Möll was deferred for a month to allow time for a small constitutional problem to be resolved.

#### **Autumn Activities**

The first fixture of the autumn was the Oxford week-end residential course held at Balliol and Jesus Colleges from September 20th-23rd (a report of the course appeared in last week's issue of *The Accountant*). The programme in London commenced last Monday with a lecture by the Registrar of Joint Stock Companies who spoke about the 400,000 limited companies in the register under his care.

The introductory course lectures commenced on Friday, October 5th, and the debates section open their winter session on Wednesday, October 10th, when the subject will be the Common Market.

In addition to these activities there will be the 'Practical aspect' lectures, together with the mechanized accounting course which Mr Dudley Hooper, M.A., F.C.A., opened last Tuesday, October 2nd.

#### Students' Club

The urgent need of the Students' Club for new members has received the Committee's consideration. Its present membership of 1,400 is not sufficient to place it on a firm footing and the committee has undertaken to devote space to the Club's activities in all future general circulars to student members.

#### Contra

Contra, the third issue of which is now out, reported that another Students' Society was eager to buy a limited number of copies for its members. The editorial board asked for, and received, approval for acceding to such requests, and required guidance on a fair price. It was agreed that is per copy should be charged in future. The editorial board of the magazine would welcome criticism and suggestions indicating those parts of its largely experimental policy that are finding approval and those that are not.

#### Parker Report

The Education and Training Subcommittee has been asked to consider the Institute's first decisions on the Parker Report, and report on them to the Committee next month.

#### Sports Scheme

The new scheme for encouraging more students to join the Society's sports clubs, as proposed at the last annual general meeting, is now getting under way. As the scheme depends entirely on a number of members coming forward to organize games in their own sports, it will be some months before the committee can judge its success.

#### Activities

A party of eighteen students recently visited the National Provincial Bank head office.

The Social Clubs wisely avoid competing with holidays during the summer, but a few events took place. The now traditional "Taverners' river-boat shuffle was once again successful. 'The Punters', youngest of the clubs, is getting off to a vigorous start by holding regular meetings. The '61 Club' has held a highly successful car rally.

#### Sports results

Cricket v. Cardiff C.A.S.S. - won by two wickets. Golf v. Kent and Sussex C.A.S.S. - won 8-5. Tennis v. Bristol C.A.S.S. – lost 2–4. Bowling v. Manchester C.A.S.S. - won.

#### Next Week's Meetings

Monday, 5.30 p.m., at the Institute, Moorgate Place, EC2. Lecture on 'Where your accounts fail the investor', by Mr D. Napper, F.C.A. (Industrial and Commercial Finance Corporation Limited).

Tuesday, 7.30 p.m., at Reigate. Lecture on 'Executorship', by Mr T. R. A. Collett, F.I.B.

Wednesday, 5.30 p.m., at Luton. Lecture on 'Costing and budgetary control', by Mr K. G. Bishop, A.C.A. (Chief Accountant, Yardley & Co Ltd).

6 p.m., at the Institute. Debate on the motion "That Britain will betray the confidence of the Commonwealth if she goes into the Common Market'.

Thursday, 5.15 p.m., at the Institute. Introductory course lecture on "The chartered accountant's profession', by Mr R. J. Carter, B.COM., F.C.A. (Secretary of the Students' Society).

Friday, 5.15 p.m., at the Institute. Introductory course lectures on 'The fundamentals of business', by Mr R. J. Carter, B.COM., F.C.A. (Secretary of the Students' Society), and "The English judicial system', by Mr P. W. Medd (Barrister-at-law).

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### ACCOUNTANT



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#### The Economy in the Balance

N unsophisticated observer of the British economy might well be excused if, after reading the address of The Chancellor of the Exchequer to the City of London bankers at the Mansion House and the 'Shadow' Chancellor's speech to the Labour Party at Brighton on successive days, he found difficulty in assessing the state of the United Kingdom economy. According to the one, home demand and production were expanding, while exports were rising. If the other was to be believed, the present Government had created economic stagnation. Doubtless the truth of the matter is to be found somewhere in between these two divergent assessments.

If it were not for the nation-wide debate on Britain's future role in Europe, the problems of the United Kingdom economy would be claiming much more attention than has been the case since the Budget. The Budget proposals last April were based upon the assumption that economic activity was on the increase and a tough Budget was needed to offset the excess demand that would rapidly emerge, just as it did in 1959. In certain respects there has been some improvement in the economy since the Budget. Industrial production is rising at about 7 per cent per annum and the national product at about 4 or 5 per cent. Exports have increased by about 6 per cent in as many months and, more important, the export drive has been especially successful in the competitive markets of Western Europe. Sterling is much stronger than a year ago; the reserves are slightly larger and over £500 million borrowed from the International Monetary Fund has been repaid in the past year.

It is easy to argue post hoc ergo propter hoc, but some part of this improvement is undeniably attributable to the restrictionist financial policies initiated over a year ago, albeit somewhat tardily, by Mr Selwyn Lloyd. For all the criticism of the 'pay pause' and the 'guiding light', which scarcely flickered, British labour costs rose at less than half the pace recorded in Continental Europe. Unfortunately, the increases in aggregate demand and industrial production at home have been insufficient to prevent some rise in unemployment, and, more significantly from the economic point of view, a reduced tempo of work in many plants. One can only guess at the scale of under-utilized industrial capacity in Britain at the present time, but it is certain that maximum output could make a difference to Britain's living standards and, more important, contribute greatly to a formulation of an incomes policy.

It is against this background that Mr MAUDLING's twopronged stimulus announced, rather surprisingly, to the Mansion

House guests, must be judged. To what extent will the release of a further f.42 million of post-war credits, coupled with public investment outlays of some £,70 million over the next eighteen months, change the situation? Of the first decision it can only be said that it may do as much for private savings as it does in stimulating consumer demand; on the second, one is left wondering whether the modest outlays reflect the fact that the constructional industries are 'already fairly heavily loaded' and larger contracts would not be fulfilled without renewed cost increases in those industries. Or is it because even the Government is waking up to the fact that the only figure in the United Kingdom economy which never declines is that of public spending? There is, of course, another view. The object of the CHANCELLOR'S measures is to provide the push which will overcome the present inertia in the economy, on the assumption that once under way, the economy will generate its own expansionist forces. Can this argument be sustained in the face of the evidence?

The most disquieting feature in the United Kingdom economy is the current recession private industrial investment. Fixed investment in British industry has increased continuously since 1945; even in periods of slackness in the economy the backlog of contractors' orders and the duration of most constructional schemes has ensured a persistent if variable rate of expansion in private fixed investment. This is hardly the case at present. No doubt the Common Market debate is casting its shadow across the economic horizon. Likewise, uncertainty regarding the outcome of the next general election is hardly calculated to stimulate the private sector to profitable activity, always assuming that recent ministerial remarks on profits need be taken no more seriously than most of the political verbiage of this day and age. The real problem in the private sector of the economy is not so much the various pockets of unused capacity and unemployed labour; it is a fundamental lack of confidence in the short-, as well as the long-term objectives of the Government's economic policy. In such circumstances a gentle nudge such as Mr MAUDLING has just given the economy is likely to be of little avail. What is it then that deters the CHANCELLOR from giving the economy the jolt required to overcome its present inertia?

The only satisfactory explanation for Mr MAUDLING's tentative steps is to be found in his comments on the recent meeting of the International Monetary Fund in Washington: 'There are doubts about the future of the American economy,... the present system whereby reserves are held only in gold, dollars or sterling could . . . inhibit the growth of trade and production in either the world or in individual countries, ... a further weakening of world commodity prices could produce a general contraction of world trade or a tendency towards world deflation. I am not predicting that this will happen; but it is a danger that we must reckon with.' In short, Britain's economic problems are soluble only within a framework of an expanding and prosperous world economy. Yet this does not mean that further Government inaction is justified; it merely signifies that without world economic expansion it will be that much more difficult to propound an acceptable policy. Whether Britain enters the European Economic Community, or any other grouping, it must ultimately formulate an incomes policy which will put an end to the persistent cost-push type of inflation which has characterized the United Kingdom economy for almost a decade.

Until there is a realistic incomes policy every future Chancellor will be inhibited from pursuing any long-run expansionist policy. According to Mr Maudling 'with the help that we will receive from N.E.D.C. and NIC I am confident that we can and shall make progress'. Unfortunately, until the public learns just what N.E.D.C. and NIC are expected to do, in more precise terms than have yet been used, no one is likely to derive more than a fleeting spasm of hope from the CHANCELLOR'S declaration. According to Mr Callaghan 'a succession of three fouryear plans could change the face of Britain'; an observation which might be interpreted in a variety of ways! One is driven inexorably to the conclusion, however, that for all the apparent differences in outlook, Mr Callaghan and Mr MAUDLING probably see things in much the same light. For the latter, however, the sands of time are running out; a new policy is needed and it is needed now. After all, the Government could lose the next election as a result of its Common Market policy. It will almost certainly lose office unless it provides a new economic policy.

#### Credit Transfer

ANY of those who have followed the giro debate over the past few years may have begun to think that it is now all over; the Post Office are showing a marked reluctance to announce any plans for a postal giro; the banks have introduced their credit transfers. We are reminded that the horse is not quite dead by the National Federation of Sub-Postmasters, who have lately issued a Press release setting out afresh the case for a postal giro.

No one who has studied the giro system in the various forms in which it is operated on the Continent would deny its substantial merits. When every business and most individuals have giro accounts, and everyone can make payments to any account holder by simple direction to the Post Office, the system is an admirable one. When no charge is made for the transfer it is better still—though there is a school of thought that argues that in all charge-free giros there is a disguised Government subsidy, which may not be recognized as such.

But although the sub-postmasters set out the merits of the scheme very well they do not improve their case by over emphasis. In 1959, for example, the Radcliffe Committee did not recommend the introduction of a postal giro; they said much more tentatively that 'in the absence of an early move on the part of existing institutions to provide the services which will cater for the need we have in mind' there might be a case for the Post Office examining the possibilities. The banks (as their critics suggest) took the hint, and introduced credit transfers, so that on the face of it the Radcliffe recommendation has been met.

There is a good case for arguing that the credit transfer system as it is operated now is not as good as the postal giro as it operates on the Continent. But this is not a good reason for ignoring the banks' credit transfers, as the subpostmasters do. Credit transfers are with us, and their use is spreading; a postal giro might provide formidable competition for them, but their existence is probably one of the reasons why the Post Office is apparently not eager to introduce a giro.

Another reason is almost certainly one of which the banks are also painfully conscious – lack of the counter space and counter staff the system would require. The sub-postmasters base much of their argument on the Payment of Wages Act. When payment by cheque becomes possible, cashing the cheques will be easier at a post office than a bank. Normal experience of post offices (and sub-post offices too) suggests that this part of the argument is, to say the least, over optimistic. The banks are finding it difficult, and in some areas impossible, to provide counter space and the staff to man it as fast as their increasing business requires. It seems unlikely that the Post Office could do better, faced with the substantially increased demand that wages cheques could generate.

There is a basic factor in the situation which protagonists of the postal giro have always tended to ignore. Mr Alan Jacobs, general secretary of the National Federation of Sub-Postmasters, is quoted as saying that 'Among the Western European countries only Great Britain and Ireland, Spain and Portugal are still without a giro'. It is equally true that in no European country but Great Britain and Ireland is there a highly developed cheque system, and it is very doubtful whether giro and cheque systems can in fact operate successfully side by side. Is it significant that the United States, rather more advanced than Portugal, is also giro-less?

Mr Jacobs suggests that Britain might suffer in the Common Market from the absence of reciprocal credit transfer facilities. Little is generally known in this country yet about international use of the continental giros, but one sees that this is a possibility, as European integration develops and perhaps the weightiest argument for the giro. But against the formidable difficulties of counter service and competition from an established cheque system reinforced by credit transfers, it may not convince Mr Bevins that the time is ripe for expansion of this order.

It is always disappointing not to be able to share the enthusiasm of the enthusiastic, and if in the event the sub-postmasters have their way and we have a postal giro then everyone will surely wish it well. But in the circumstances of 1962, different already from those of 1959, the case is not quite as strong as they suggest.

#### Short-term Gains — XIV

#### COMPANY RECONSTRUCTIONS

AST week we dealt with most of paragraph 12 of the Ninth Schedule to the Finance Act, ✓1962. This paragraph is designed to give relief where a shareholder or debenture-holder disposes of his holding in exchange for shares or debentures of another company, in pursuance of what we called an 'exchange amalgamation'. It does this by applying paragraph to to the exchange. Thus, broadly speaking the exchange is not treated as a disposal of the old holding and the new holding is treated as having been acquired when the old one was acquired. The relief under paragraph 12 is subject to modification where there are shares in a land-owning company in such circumstances that there may be liability under section 14 of the Act. These modifications are contained in paragraph 12 (3) (4) which we will examine when we deal with original holders are to be treated as exchanging section 14.

Paragraph 13 did not appear in the original Bill; it was not inserted until July 4th, at about two o'clock in the morning, when the minister introducing it described it as a succulent dish, and said it could be explained only by a long speech. Mr DIAMOND confessed he was unable to understand it, and therefore one may fairly safely assume that no other member could understand it either, notwithstanding their unanimous desire to avoid listening to a long speech about it. One therefore approaches paragraph 13 with a certain amount of trepidation.

It was pointed out to the Government at the Committee stage that there could be schemes which are not very dissimilar to an exchange amalgamation falling within paragraph 12, but which would fail to qualify for paragraph 12 relief because there was not in fact an exchange of a holding in company A. for an issue of shares or debentures in company B. It may be that under the scheme the old holding is retained or cancelled. In those circumstances, there may or may not be a 'disposal' of the old holding, but clearly the new holding would not, under paragraph 12, be treated as having been acquired at the time the old one was acquired. Therefore the six months would commence to run again. Paragraph 13 (1) deals with this anomaly which was created by the Bill as originally drafted. It applies where the following circumstances obtain:

- (a) An arrangement between company A. and its shareholders or debenture-holders (or a particular class of them) whom we will call 'the original holders'.
- (b) The arrangement is entered into (i) for the purposes of; or (ii) in connection with; a 'scheme of reconstruction or amalgamation' (as defined in paragraph 13 (3)).
- (c) Under the arrangement, company B. issues shares or debentures to the original holders.
- (d) The issue at (c) is both (i) in respect of; and (ii) in proportion (as nearly as may be) to the original holders' holdings.
- (e) The original holdings are either (i) retained by the original holders; or (ii) cancelled.

All the above conditions being satisfied, the their original holdings for 'those held by them in consequence of the arrangement'. The retained original holdings are to be treated as if they had been cancelled and replaced by a new issue. This deeming of an exchange automatically brings in paragraph 12 (1) which is expressed to cover an issue of shares or debentures 'in exchange for' shares or debentures, and applies paragraph to as if the exchange were a reorganization of a single company. Paragraph 12 (2) limits the application of paragraph 12 (1) to the cases where the exchange is part of what we have called an 'exchange amalgamation', the meaning of which we expounded last week. However, paragraph 12 (2) does not operate where paragraph 12 is applied by paragraph 13. This is because paragraph 13 itself does not operate unless there is a 'scheme of reconstruction or amalgamation'. The latter phrase is defined in paragraph 13 (3) as

'a scheme for the reconstruction of any company or companies or the amalgamation of two or more companies',

a definition which tells remarkably little. Paragraph 13 (3) also is at pains to say that references in the paragraph to shares or debentures being retained include their being retained with altered rights or in an altered form, whether as a result of reduction, consolidation, division or

otherwise. References to schemes of reconstruction or amalgamation also occur, *inter alia*, in section 208 of the Companies Act, 1948, and the meaning of the terms has been the subject of much judicial comment, beyond the scope of these articles.

Having entered the field of reconstructions and amalgamations, paragraph 13 goes on to deal with another topic, which is divorced from the question of disposing of shares and debentures as such. Paragraph 13 (2) applies where the following conditions are satisfied:

(a) there is a scheme of reconstruction or amalgamation (as defined);

(b) the scheme involves the transfer of (i) the whole or (ii) part, of the 'business' of company A. to company B.;

(c) company A. receives no consideration from company B. for the transfer (ignoring any liabilities taken over from company A.).

In the above circumstances, company A. is not chargeable to Case VII tax 'by reference to the transfer in respect of the acquisition and disposal of any assets included in the transfer'.

The advantage accruing from paragraph 13 (2) would not be very widespread except for the provisions requiring the assumption that the market price has been paid where the transfer is not at arm's length. It is worth observing that company A. need not transfer more than 'part' of its 'business'; so the question arises whether the subparagraph would apply to the transfer of a mere asset. Of course, the transfer must be involved in a reconstruction or amalgamation, but the subparagraph does not in terms require that company A. be reconstructed, nor that companies A. and B. be amalgamated. It is arguable that it is enough for some other reconstruction or amalgamation to 'involve' the transfer. The subparagraph resembles, but is not identical with, some of the terms of section 55 of the Finance Act, 1927, which provides for stamp duty relief on reconstructions and amalgamations.

The transfer of a 'business' to a company is also the subject of paragraph 14, which applies where the following conditions are satisfied:

- (a) A. (who may be an individual or a company) transfers to company B. a 'business';
- (b) the business is transferred as a going concern;
- (c) together with the whole assets of the business (or with the whole assets other than 'cash');
- (d) the transfer is wholly or partly in exchange for shares;

(e) the shares are issued, by company B.; (f) to A.

In so far as the shares are consideration for any asset of the business, then A. is not chargeable to Case VII tax in respect of his acquisition and disposal of that asset (paragraph 14 (2)). If A. would have been chargeable in respect of the asset but for this provision, then the shares which represent the consideration for that asset are to be treated, with the asset itself, as the same asset, acquired at the time when A. acquired the original asset. It follows that if the asset consists of land or an interest in land, then the corresponding shares will be treated as land, so that they would remain vulnerable to Case VII liability until the expiration of three years from A.'s original acquisition of the land (paragraph 14 (2)). In so far as the consideration for any asset included in the transfer is not an issue of shares by company B., then the ordinary Case VII rules apply. Thus if the consideration allocated to an asset transferred is a debenture, the market value of the debenture will be the measure of the proceeds of disposal. If the sale is within the statutory six months (three years for land) and the proceeds exceed the sum of the cost plus an apportioned part of the total sale expenses, there will be liability.

As regards the shares which A. receives under (e) and (f) of the conditions, his subsequent disposal of them will not attract Case VII liability unless they fall into one of the following categories:

- (i) shares representing the consideration for business 'cash' included in the transfer;
- [(ii) shares treated under paragraph 14 (2) as the same asset as a business asset transferred to company B. (paragraph 14 (3)).

This is not to affect any section 14 liability. Shares which enjoy the benefit of the exemption provided by paragraph 14 (3) are to be treated, broadly speaking, in the same way as if A. had acquired them as legatee. Thus paragraph 8 (5) will apply so as to ensure that in identifying disposed of shares the identification is to be primarily with shares not within the exemption.

If the consideration for the transfer of the business is not confined to a single homogeneous class of shares, it is clear that for the purposes of paragraph 14 the total consideration will normally have to be allocated among the various assets forming part of the business. Elaborate rules for

this allocation are contained in paragraph 14 (4). The taking over of the business liabilities is, of course, a consideration. It is to be allocated as far as may be to the 'cash' taken over (paragraph 14 (4) (a)). One wonders what the draftsman means by 'cash'. The cash, properly so called, of a business is normally confined to the contents of the petty cash box. So-called 'cash' on current or deposit account at the bank is not cash at all, but a debt due by the bank. For stamp duty purposes, the credit balance of a current account is by concession treated as cash, but it is only a concession.

If there is consideration (which we will call 'outside consideration') which is neither the taking over of liabilities nor an issue of shares, it is to be allocated, as far as may be, against other

matters, if any, than the transfer of the business, e.g. where both the business and some other assets are transferred for a global consideration. So far as it is not so treated, this outside consideration is to be treated as consideration for assets in respect of which A. is chargeable under Case VII (or would be but for paragraph 14 (2)). This is the effect of paragraph 14 (4) (b). Subject to paragraph 14 (4) (a) (b), the consideration (whatever it is) must be allocated (as far as necessary) between assets rateably according to their 'amounts', after allowing for prior allocations under (a) and (b). Paragraph 14 should supply ample food for thought to both lawyers and accountants.

(To be continued.)

# The Eyes and Ears of Management

by BRADFORD CADMUS

Director of Research and Education, The Institute of Internal Auditors

NE of the terms that internal auditors often / use to characterize themselves to others is that they are the 'eyes and ears of management'. I think this is an apt characterization - and in it we may assume that management is the controlling brain. Whether we are seeing or listening, we are principally affected by those things which we want to see or hear. If they are unusual enough, our attention will be drawn to them. But those things that we are not particularly interested in - because we are used to them or do not think them worth bothering about - just do not register. This brings us to the point that the internal auditor should be constantly aware and alert to the really important things in his organization, and should be able to express himself in terms that will be acceptable and understandable to those in management. Otherwise what he has to offer will be disregarded or rejected as unimportant.

As he examines a business and puts himself in the position of being responsible for its progress, the first thing he comes up against is that he must divide the business into logical sections and then determine some sort of goal for each section. This goal may be in such terms as profits, budgets, or favourable results as compared with what the company has been doing in the past.

Next he must pick the people who will have the responsibility for attaining the objectives. Finally, he must have a plan of reporting that will show how well the responsible people are getting the results that were hoped for. To keep things on an even keel, it is necessary to establish policies as ground rules

under which all sections of the business are to

It is reasonably safe to say that every company head thinks along the following lines, for each major section of his business:

- (1) Are the objectives well defined and set up with a logical division between the various parts of the business?
- (2) Are the objectives reasonably attainable?
- (3) How well is each section doing in gaining its objectives?
- (4) Have the right ground rules (policies) been set up for the business?
- (5) How good a job is being done by the man in charge?

The 'pay off' question is the last one - since almost everything comes down to people - to those who do the work. Every comment, every report will consciously or subconsciously be applied to help in answering the question - 'Is the right man in the right job?' Since people are people, there is a rather remote chance that any one individual would be rated 100 per cent as an executive by the sales department, the credit department, the manufacturing department, the controller and the internal auditor. So, we have to picture top management as faced with the problem of developing a composite judgment of each operation from a considerable volume of formal and informal reports and other communications. In this problem, the establishment of proper objectives is paramount. If these objectives are attained - this will be evidence that a good job has probably been done.

Let us summarize by using a little alliteration; it

can be assumed that the company chief will be interested in: plans, policies, people, performance.

It might seem that I am proposing that internal auditors become experts in everything – this is not the case. But they do have to bring to the business an expertness in control – and controls exist in every level and every department of an organization. Along with this expertness, as they travel around they get to know how the business is put together and how it operates. In my view the internal auditor in a farflung business has an unsurpassable opportunity to gain a broad-gauge perspective of the business.

The internal auditor who already has been assigned broad scope for his work is in a fine position to shape his operations to maximum overall effect; the auditor who is confined to narrow fields cannot do as well—but when he demonstrates what can be done in his assigned field, he usually will be given broader

responsibilities.

Now let us give some thought to plans, policies, people and performance.

#### **Plans**

Plans express the judgment of management as to the general organization and objectives of the business. They will be developed as a composite of judgment and experience, and their development is the job of management – not the internal auditor. What the internal auditor can and should do is to make sure that communications, such as reports, keep everyone who is affected informed as to how plans are working out in practice. This will help to answer what is probably the first question in any company chairman's mind – 'How are we doing?'

#### **Policies**

After plans and objectives are established, ground rules - policies - are set as to how the organization is to operate. Like any arbitrary rules, there will be times when policies may seem unfair, inapplicable or downright wrong. Sometimes the internal auditor's findings will permit very definite recommendations in policy matters; probably more often his report will confine itself to showing how the policy has worked in operation. For example, in a machine manufacturing company, policy called for having certain parts manufactured by a company unit that was not equipped with the special machinery that would permit most efficient production. Specialized outside suppliers could furnish the parts at about half the cost. The auditor's report did not say that the policy was right or wrong; it did bring out the facts as a basis for possible revision.

# People

People are the organization—and the universal question that all supervisors from the board down ask themselves is—'Is the right man in the right job?' In lower levels of organization, where work is

specialized, this question is comparatively easy to answer. A book-keeping machine operator who is poor in manual dexterity and makes constant mistakes does not belong on that job. As we get up to higher organization levels, we reach a point where it is impossible to have all requisite talents wrapped up in a single individual. Here we must judge the executive in charge—first, on his ability in attaining his objectives; second, on his ability in forming and heading a 'team' that in total will provide the necessary talents and controls. By far the most important is the first ability—the attainment of objectives. If he can do this, his superiors will be predisposed in his favour even if his team is not well balanced.

Here is an example of how internal auditing helped in such a situation. The operation was an autonomous commodity processing operation of a large company. It was essential that the man in charge be highly expert in commodity purchasing and trading. He was - and the operation consistently attained or exceeded the objectives set by management. Like many successful executives, the man in charge was inclined to be impatient with office controls and policies. His feeling was that his own ideas and ways of doing things were justified by the undeniably good results he was producing. In this situation, it would have been futile to force an issue on any narrow questions of control. Instead two steps were taken. First, more complete and more frequent internal audits were made than were scheduled in better controlled units. Second, a hardhitting down-to-earth auditor who could talk costs, profits and controls on a give-and-take basis with the successful manager was assigned to the internal audits. Over a period of time, he was able to 'sell' the reluctant manager on better controls - and the internal audit effort could be curtailed.

# Performance

On the question of prompt, fair and complete reports of performance, the internal auditor – having verified that reports of performance are properly prepared – should look at things from the angle of those who will receive the reports. He should ask – and answer – to himself such questions as:

- (1) Do the figures and other items reported give a good picture of operations?
- (2) Are both favourable and unfavourable situations and results fairly brought out?
- (3) If I (the internal auditor) were in charge of this operation, would I be willing to be judged on the basis of these reports?

#### **Procedures**

It may be noticed that I have previously left out one factor in operations that also begins with the letter 'P'. That is procedures – and I left it out deliberately. To be realistic about things, I feel sure that most

company chiefs are just not interested in procedures. Sometimes, of course, they are forced to think of them when people start kicking because procedures seem to be unduly complicated or expensive or are

not working.

The president of a company that I once worked for said that he considered procedures as the 'plumbing' of the business. I did not like that expression very much – since I happened to be in charge of procedures. Yet, as I thought it over, I had to admit to myself that it was a rather apt comparison. Procedures, like plumbing, should operate behind the scenes simply and effectively to produce the final results for which they are designed. If they do not, if things are plugged up or spring a leak, there's often hell to pay.

Let us not be unduly preoccupied with procedures, then. We want to be sure that they are simple and effective; they should be working as they are supposed to work. If they are not, we should report and suggest ways to straighten out or 'unplug' the

'plumbing'.

# Approach

Now an approach that some internal auditors take to their work - and one that is utterly wrong if they are to have any sort of broad-gauge responsibilities is what may be called the 'right' or 'wrong' approach. The auditor that does things this way has everything very nicely divided between 'right' and 'wrong' with few doubtful areas. He is the sort of fellow that talks of 'principles'; and by 'principles' means the things that must be done, regardless of reasons or extenuating circumstances. To him, bank deposits must be made every day since that is a 'principle' of the control of cash. If this is not done, the 'law' has been violated, and there is no argument about it. The internal auditor who can work with a check listof 'principles', ticking off 'right' or 'wrong', makes things easy for himself, but I am very doubtful whether he is doing a really effective job.

I am not proposing that internal auditors should give up checking and comparing. It is a most important part of their work, in the cycle of internal audit activity that has been expressed as (first) familiarization, (second) verification, (third) evaluation, and (fourth) reporting. But they must look at the practical side of things – at the importance and the contribution that their work and findings make toward the

objectives of the business.

Internal auditors should therefore adopt the approach that there are no axiomatic principles that cannot be deviated from regardless of circumstances. They should think in terms of standards. These are things that are nice to do—and should be done in many situations—but no one is to be condemned just because they are not done. Accordingly, any difference that is brought out in their verifications is first-off a clue and not a crime. They should wait until they have completed their examination and

have heard all sides before they think about criticism.

One of the hardest talents to define or to cultivate is a sense of proportion and value. This is the talent for putting things into perspective so that they are viewed in relation to their importance in the overall picture. To some degree, I think that perspective — or the lack of it — is something one is born with. Some people are just naturally interested in every detail to see that it is perfect. Such people are so interested in perfection of detail that they are not interested in putting the detail into its proper place in the overall picture. Other people are so occupied with big issues that they never become practical. Probably the best advice here is that the auditor should ask this question on each finding — 'Is this important to the company?

My favourite definition of accounting is that it is the 'art of expressing opinions in numbers'. Because accounting is to a large degree an art – because it is concerned with opinions – we cannot judge the results of the accounting effort unless we know the basis of the opinions. To put it in another way, we must know the operations on which the figures are based before we can have any assurance of the validity of the figures. That is why the 'broad-gauge' auditor must have broad-gauge curiosity about every operation – always asking 'what' and 'why' and 'how' until he is satisfied in his own mind that what is being done is properly recorded in the accounts and fairly and completely reported to those who are responsible

for final decisions.

#### Conclusion

For the internal auditor to do as I suggest – to regard himself in the position, and to think in terms of top management is a challenging assignment. To do so is not easy, since it is always easier to think in one's own way than to try to project oneself into another's way of thought. Once it is begun and is continued, however, it is fascinating and cannot but bring a great feeling of accomplishment to the auditor. More important, the usual result will be greater recognition and acceptance by all levels of management and by those who are the subjects of audit. They will look on internal auditors as members of their team – not as umpires.

Aside from the field in which they are qualified experts – the field of control – the internal auditor's job is to assure oneself that situations and facts are revealed completely to those who will give opinions and decisions. To limit oneself to control is sometimes hard, since one often cannot help but have opinions on matters outside of one's own field. But they have to be kept to oneself unless one is given an oppor-

tunity to present them.

So internal auditors require to think in the terms that management understands and can use. When they do this – when they pretend that they own the business – they are really earning their way in helping to bring better executive control.

# Problems Facing the Practising Accountant as a Financial Reporter

by Professor D. S. ANDERSON, M.A., C.A.,
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THE most important of the many functions of the accountant, whether he be in public practice or in whole-time employment in industry, is perhaps the effective communication of his ideas and opinions to those whom they concern. Yet this all-important aspect of the accountant's work is the one in which the profession has allowed itself most to be tied down by tradition and history and to which the leaders of the profession have devoted least effective attention.

Intelligible financial reporting is needed for a wide range of differing interests. Present and prospective stockholders, Government agencies, economists, national economic planners, creditors, the Press, workers, the public interest and even management, make use of such reports and are surely entitled to expect to receive a clear and unambiguous message.

# Challenge to the Profession

Reports on company accounts represent the great majority of the accountant's public communications and while the accounts themselves are generally the responsibility of the directors, the accountant's influence on the development of the art of financial reporting is in fact very considerable and presents a challenge to us all. How are we as a profession meeting this challenge? In my humble opinion the answer must be 'Not very adequately'.

Company accounts and reports are, we must remember, presented by the custodians of corporate funds to the owners of these funds and receive wide circulation among the public. These owners and the many other interested sections of the community are entitled to the fullest information which can be given without harming the best interests of the company concerned. They are equally entitled to expect that the information given be supplied in such a form that it can be understood by even the less well educated among them.

The rising standard of living throughout the civilized world in the past fifteen years has had amongst its beneficial effects the introduction to company share owning of hundreds of thousands of individuals who in earlier times had neither the funds nor the inclination to invest in industry. Stockbrokers throughout the world have emerged from their seclusion to instruct the masses in the benefits and machinery of share purchasing. Many of the larger companies have introduced schemes under which their employees are offered stock in the

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companies by whom they are employed as a year-end bonus. Many of these people – indeed the vast majority of them – have no understanding of accounting forms and terminology; the financial reports which they receive as stockholders can have very little meaning to them unless they are couched in non-technical language.

Professor B. S. Young, in a paper which appeared in *The Three Banks Review* (a publication of the Royal Bank of Scotland and its associated banks), wrote:

'Company accounting statements are of considerable interest in our economy in which public companies occupy an increasingly important place, and in which the liquidity of their securities has wide implications. A strong case can be made therefore for urging that company accounting conventions and practices, as well as the legal rules concerning the determination of divisible profits merit an authoritative and thorough review.'

I would add to 'accounting conventions and practices' the words 'and language'.

What has been done to meet the needs of this ever increasing but not financially educated body of stockholders? So far as I can see the answer is 'Not nearly enough'. I admit that a lot of useful research has been done by some of the accounting bodies, many of whose pronouncements and recommendations have been of great value to the profession and to the

public, but the need for a fresh approach in the interests of the growing body of stockholders who

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lack the necessary financial education does not appear to have been appreciated.

The annual reports issued by an increasing number of companies now frequently contain a certain amount of statistical data, and the chairman's statement also adds considerably to the information which can be gleaned from the financial accounts, but this additional information is not generally required either by law or by usage, is not reported on by the auditor and only goes part of the way in meeting my criticism. I suggest that as a profession we should use our best efforts to ensure that the stockholder be given all the information which he might legitimately expect to receive and in a form in which he may be expected to understand it. We pride ourselves on being an important - even indispensable - cog in the industrial machine. To maintain this claim we must move with the times and not remain content to act as a steam engine in the atomic age.

The impact of these financial reports on the ranks of organized labour must not be overlooked, and it is important that they be not misread and used as a weapon with which to attack the management side of industry.

#### Static Outlook

Where then do we fall down? In what respects are we lacking? Principally, I think, in our almost static outlook in relation to the needs of the ever-widening class of recipients of our reports. The form of the financial accounts issued by companies throughout the world has changed remarkably little in the past hundred years. It was devised in the days when joint stock corporations were few and far between and when the sector of the community which was interested consisted of a small and select group of highly educated and financially informed men. Changes have, of course, taken place, sometimes as a result of the recommendations of the accounting profession, sometimes as a result of legislation and sometimes in response to public demand. But such changes have been minimal and largely of a practical nature and not resulting from a consideration of the underlying theory. The tendency, too, has been to go no further than was absolutely demanded.

The profit and loss account or income statement and the balance sheet are today not very different from those produced at the beginning of the twentieth century. They may be produced in a much more expensive, elaborate and colourful form, but their contents have not improved or changed with their outward appearance. A language has been developed for use in these statements which employs words in everyday use in normal life, but which attributes to these words and phrases a narrow specialist meaning which is quite often very different from the meaning attributed to them in normal conversation. We are tending to develop a jargon of which we have no cause to be proud.

And as though this difference between the common language and the specialist language were not enough

confusion, even within the narrow confines of our own territorial boundaries, we accountants are not in agreement as to the exact meaning of some of the more important and elementary terms which we employ.

To illustrate my point I would cite as an example the word 'depreciation'. The man in the street knows and uses this word and knows what it means to him. To ask two accountants for their interpretation of this word is to invite a discussion of the merits of 'historical cost' and 'replacement value'. And 'depreciation' is a word which appears in every profit and loss account and balance sheet. Note the chain reaction; 'depreciation' affects the amount of the 'profit' and also of the 'book value of the fixed assets'.

What message does the reader of such statements receive? He will read the story according to his interpretation of all these everyday terms and this may not be the story intended by those responsible for it.

About three years ago Professor Louis Goldberg, of Melbourne, wrote a series of five papers on 'Concepts of depreciation'. These have recently been published in book form and highlight the confusion which this one word 'depreciation' can cause. In one paper he writes:

'Let us try to avoid deluding ourselves and others.'
If by "charging depreciation" we mean an allocation of historical cost let us use words (such as cost allocation . . .) which will convey this meaning.'
And he continues:

'If we mean attempting to provide resources for future replacement of assets why not use words (such as "provision for future replacement") which will bring this meaning out?'

'Let us not delude ourselves and others.' I stress these words because I think this is just what we are doing. We rather pride ourselves on our exactitude, but when we come to think of some of the ambiguities which we perpetrate, I feel that we must blush.

Professor Goldberg suggests that more precision in the use of terminology may call for some hard thinking by accountants, and adds in typographical parentheses, 'Are not accountants accustomed to hard thinking?' [Sic.]

# Double Talk

And so we, as individual members of a profession which prides itself on its integrity and exactitude, are continuing consciously to use words having to us a definite implication when even amongst ourselves we are not agreed as to the meaning of these words. This double talk does us no credit and must inevitably tend to discredit our pronouncements.

We produce balance sheets or statements of funds which we do not suggest show the present-day worth of our client's undertakings. Though aware of the fact that the great majority of those who receive these statements believe them to depict the year-end value of a business, we do nothing to dispel this wrong idea.

This is the position in this year 1962 as I see it; a

position which we calmly accept but one which I suggest should not be allowed to continue.

All the criticisms which I have so far made can be levelled at the accountants in my country; and I am pretty certain that they are true of most, if not all, the civilized countries where accounting has grown from a common root.

That there has been some concern about this state of affairs is evidenced by the existence of certain articles on accounting terminology which have appeared from time to time.

In Volume II of the C.P.A. Handbook reference is

made to a plan:

'to set up a group of representatives of leading branches of society which used terms similar to those used by accountants for the purpose of recommending definitions to be used by all. It was believed that if a group of this kind made up of accountants, lawyers, economists, financiers, business managers, bankers, labour leaders and investment counsellors would agree on a definition it might be reasonable to expect that all groups would adopt it'.

This project was unfortunately dropped in favour of another which at the time seemed more urgent.

A significant statement is made in this same publication:

'When words have meaning to only one person/ or to one group of persons they are not useful in statements to be given wide distribution.

The American Institute of C.P.A.s while admdoning this ambitious scheme has issued certain 'Accounting Terminology Bulletins' which, however, have a very limited scope and which were primarily intended to achieve a measure of standardization of terminology within the profession.

In 1957 the Canadian Institute of Chartered Accountants issued a book entitled Accounting Terminology. In a foreword the authors state:

'It is not the purpose of Accounting Terminology to direct the profession in the use of individual words and new phrases, but rather to define and explain the words and phrases which through continued use have become an accepted part of the language of accountancy. Changes there will be and only acceptance by the profession and by the public it serves will determine what will endure.'

This book lists and defines 517 words and terms in common use by accountants and is at least a step in the right direction. But unless the definitions be accepted by the members of the profession and become recognized by the general public the real benefit of this advance will not be enjoyed and its effect felt.

The Union Européenne des Experts Comptables (U.E.C.) and the Organization for European Cooperation (O.E.E.C.) have also made certain contributions on this theme to which I shall refer later.

# **Superseding National Frontiers**

If there is any truth in my assertion that the accountancy profession is being less than honest with its readers, it is important that something be done

quickly to put our house in order for one very good reason, viz. the development of international trade.

Alexander Graham Bell invented the telephone in 1876; in 1899 Senatore Marconi proved that wireless telegraphy was a practical possibility; in 1919 Alcock and Brown demonstrated that a heavier than air machine could fly the Atlantic.

These three discoveries have probably done more to shrink the size of the world and to bring the peoples of the earth closer together than all the other advances of mankind. Developments of these three achievements have made the inhabitant of New Zealand the next-door neighbour for all practical purposes of the Nova Scotian: have made Madras a suburb of Mexico City.

The effect has been truly dramatic in the world of commerce and industry. The constant shrinking of the distance - in time - between markets, between producer and consumer, has improved enormously the lot of both. Were it not for the unfortunately wide gaps caused by nationalism and ideological differences one could hope for the early arrival of that happy day when the peoples of this troubled world could enjoy the mutual benefit of the labours of all.

The ideas of NATO, EFTA, and the European Common Market, though possibly prompted to some extent by other causes, are developments in the common weal of these discoveries aimed at bringing man into closer contact with his neighbour across

national frontiers.

In recent years we have seen a growing awareness in the minds of the investing public of the opportunities offered by the stock exchanges of the world. Investment at quite a low level is becoming international instead of local. More and more American securities are being dealt in on European and Asian bourses; Swiss, German and French interests are becoming increasingly conscious of the opportunities offered for sound investment in industry outside the frontiers of their own countries. An ever increasing number of international concerns is investing in business carried on in countries outside their own frontiers, often in countries where the language is not that of the homeland.

# Problem of Language

One single obstacle above all others which inhibits or retards this very desirable development is the question of language. And by language I do not mean only the national tongue. English is the language of some 350 million people and is the commercial language of probably another 500 million. Can we say that in a commercial sense it is a common tongue even among the English - not to mention the Scots or Irish?

In our everyday language we, the English-speaking . nations, have different words for quite ordinary things. In Britain a flat is something in which one lives; a cuff surrounds the wrist; gas is used to illuminate the streets in some places; a fender is a

protection against coal falling out of the fire-place; a depot is a storehouse. Consider the American meaning of these terms! Even in Britain there are variations

of meaning from region to region.

If English-speaking people have such possible misunderstandings among themselves in everyday domestic matters, how much greater must be the possibility of confusion between them and those for whom English is not the native language? And how much greater is the likelihood of misapprehension when we get into the realm of technical subjects?

We have English/French, English/Spanish, French/ German, etc., dictionaries which give a translation into the second language of the common definitions of most words used in the first language. The need exists for similar dictionaries of accounting terms.

Here then is an opportunity for the accountants to do something to bring the business people of the world and others closer together. It seems to me that as a section of the community of man we can do more to achieve this end than any other group of people -

and certainly more than the politicians.

Nothing very radical is really necessary; no strongly held views need be sacrificed. All we require is a general acceptance of the meaning of the words which we use in a technical sense. Neither the alphabet nor the rules of this specialist language have been agreed upon. And this is a first essential of a satisfactory atmosphere in which to foster international aswell as domestic exchange of accounting information. Without this, confusion must arise. We all know of the trouble which blows up when two teams playing a game obey different sets of rules!

# **Individual Expression**

I am not a believer in standardization of accounting techniques. We practice an art which calls for individual expression of opinion and thought and I think that it would be a sad day for the profession and, in fact, for the community if the reporting accountant were forced to conform to a rigid code in performing his function of reporting. We cannot all think alike and there is generally room for two or more points of view in most matters. We do, however, owe a duty to those to whom our reports are addressed; a duty to make these reports comprehensible and in no way possible of two interpretations being given to them.

This can only be achieved if a common alphabet is employed. The basic terms which we employ should have only one possible meaning, no matter in what language they are expressed. Qualification of the basic meaning could be achieved by the addition of

suitable qualifying words.

Mr Kenneth S. Most, writing on 'Accounting terminology' in The Accountant (March 16th and 30th,

1957), says:

"To make words and figures meaningful is the accountant's task.... Although it may not be necessary to invent new terms for the forms and contents of accounts, it is most necessary to specify what exactly each shall contain. In doing so current requirements should be allowed to overrule accumulated tradition.

I would substitute the word 'made' for 'allowed' in the last sentence.

How then do we achieve this end?

We must endeavour to ensure that reporting accountants are awakened to the danger and possible criticism which may arise from the ill-considered use of accounting terms often resulting from a natural desire to reduce to a minimum the number of words used. The growth of technical jargon should be arrested and the compilation commenced of a carefully constructed lexicon of accounting terms which could be produced in the languages of all countries where accounting is a recognized and significant art. Such a work should be revised by an international panel in order to ensure that the definitions were on an agreed international basis. Each country would, of course, réquire to produce its own draft lexicon and this obviously would be a quite lengthy undertaking which would require to be entrusted to a body of responsible members of the profession including both members in practice and persons in other walks of life with similar interests.

The integration of the drafts in different languages would follow and would, of course, be an exacting task which would call for the agreement and acceptance by an international panel of the meaning to be actiouted to all terms in common use by the account-

ant in the pursuance of his function.

Difficulties and differences of opinion would be experienced, but these would tend to emphasize the need for just what I am advocating. These difficulties would arise at the national level, but I cannot see that it should be impossible even for the most dogmatic individuals to devise suitable phrases or terms to meet the different shades of meaning which can be advanced for such words and terms which have a possible variety of interpretations.

In the international field there are many differences of opinion on a multitude of matters; tariffs, quotas, subsidies, immigration, armaments, frontiers, etc. So long as these differences exist they cause friction and international misunderstanding – note the word – but most of them have been resolved at one time or another by international agreement and to the advantage both of the countries directly interested and those apparently not concerned. Armaments is unfortunately one of the fields in which agreement has not been reached, but the obstacle has largely been an ideological one. Is no responsible body of accountants willing to initiate international discussion in our particular sphere with a view to permitting understanding to be reached?

# An Accounting Lexicon

As this paper was being written, Union Européenne des Experts Comptables Economiques et Financiers (U.E.C.) published its Lexique U.E.C. Lexicon. This

is described as 'a multi-language dictionary of accounting terms and definitions thereof'. It is divided into five sections, these being respectively in French, German, American-English, Spanish and Dutch. In each section the 1,000 terms and phrases are defined and there is given the equivalent corresponding word or phrase employed in the other four languages.

This considerable task is the work of U.E.C. Committee Lexicologie Comptable. In a foreword it is stated that it is proposed to add an Italian and possibly an English section in later editions. The

authors state:

'Such peculiarities which are often the cause of incorrect translations are in the field of accounting due to different usage and customs as well as the prevailing accounting theories... This present first edition could not be perfect (in this regard) because the individual terms are as a rule defined only in the language of that country to which the explanation applies... A complete co-relating would have required a great deal of additional work which would have delayed publication considerably.'

That this work should have been produced shows that some people believe that a need for it exists. It is no doubt one aspect of the closer relationship which is being established among the Common Market, countries. All credit is due to the committee for the completion of this first phase of their enormous task. How far the definitions are accepted by the accounting profession in the countries concerned I do not know. It seems to me that an important need is for the committee to sell the idea to the members of the profession in the countries whose representatives have collaborated and then as a final stage to publicize the findings amongst the sections of the community most likely to be interested. General acceptance by the business and professional world of the single definition for any word or phrase used in accounting language should be the ultimate aim.

So far as I am aware, no move along these lines has been made in the United Kingdom nor in North America, even although a section of the *Lexicon* is devoted to American-English. This, I suggest, is a matter which should receive the early and serious attention of the leaders of the profession in these two

regions.

#### **Financial Statements**

While little has so far been achieved in establishing a common 'language' of accounting terms throughout the world, a certain measure of unanimity has been reached in the form of accountants' financial statements. This is evidenced by the fact that the published reports and financial statements of companies and corporations are framed in the same broad form. This form, the normal balance sheet and income statement or profit and loss account, was evolved in the United Kingdom, was followed by the U.S.A. and Canada, and has been adopted in most civilized

countries. But an increasing divergence seems to be developing in the principles adopted by different countries in the preparation of these documents. And it is significant that an increasing number of companies is finding it desirable to supplement these forms with a mass of additional facts; statements of cash flow, earnings on capital employed, turnover and expense figures for ten-year periods, etc. Why should this trend be developing? Surely it is the realization that the stockholder, creditor, potential investor and any other interested party is entitled to more information regarding the concern in which he is interested than is usually given in the normal balance sheet and profit and loss account.

Under United Kingdom statutes certain classes of British companies, including shipping companies, are exempted from giving certain information in their published accounts such as movements in reserves etc., which information is obligatory for the vast majority of British companies. The Jenkins Committee on Company Law Amendment heard evidence on this exemption from members of the General Council of British Shipping. One witness, in discussing the potential investor, is reported as having said: "The British investor is in no doubt whatsoever what is the strength of the company he is proposing to invest in.' This brought the tart rejoinder from a member of the Committee, 'I have some difficulty in examining the accounts, in forming a view as to the profitability and I can only say, Sir, that I cannot agree with you'.

The draftsman of company reports, be he a company executive or a practising accountant, does not, of course, have an entirely free hand in the preparation and presentation of his facts and figures. He is controlled in his function by three main factors, viz. legal requirements, the taxation legislation, and the recognized standards of presentation advocated by responsible accounting bodies.

# Informing the Public

While some readers of company reports, such as bankers and financiers, may be expected to appreciate the legal and fiscal conventions which have to be respected in the presentation of financial reports to stockholders, the vast majority of the readers, i.e. the stockholders to whom these reports are addressed, tends to interpret the language in such statements according to what one might call 'colloquial English'. Such persons are often not familiar with company and fiscal legislation and are unable to recognize that, for example, the profit disclosed on the face of a profit and loss account is not necessarily - and in fact seldom is - the profit on which a company will have to pay income tax. The published profit is arrived at after the directors have made a decision as to the provisions that they consider should be made (irrespective of fiscal provisions), the near capital expenditure which they think should be 'written off' against the year's profits, the sums which they have

decided to provide for amortization of capital or provision for future replacement of fixed assets. The result frequently is that the taxation charge is very different from the figure which would be required if there were applied to the published profit figure the appropriate rate of tax. A random examination of the accounts of six British companies for 1960 shows that the provision for United Kingdom taxation varied as follows:

Company A. 40°2 per cent

"B. 47°9 "

"C. 49°1 "

"D. 50°8 "

"E. 53°1 "

"F. 62°7 "

The rate of United Kingdom income tax and profits tax for that year was 53.75 per cent. Obviously company officials must be given freedom to make such provisions in their accounts as they consider necessary in the interests of their companies, but it seems to me that the stockholders have an interest in knowing what is being done. I can see no objection to, and in fact very good reason for, disclosure on the face of the profit and loss account of significant variations between the taxable profits and the published figures. The publication of such comparison might, in fact, bring home to the general public the effect of certain fiscal provisions which can only be described as harsh and restrictive. The resultant public reaction might do more towards amendment of such legislation than the many and oft reported submissions by industrialists and professional bodies.

The past fifteen years has shown an enormous increase in the number of 'take-overs' in Britain. Many of these have been inspired not so much by the prospects which amalgamation offers of more economical working, but rather by the attraction of large hidden reserves existing as a result of the comparatively low balance sheet value attached to the fixed assets – particularly land and buildings – compared with their real market value. Offers made in pursuance of such bids have frequently been for many times the balance sheet value of the companies and of the stock exchange valuations of these companies. As Lord Kilbrandon, a judge in the Scottish Courts, said at an accountants' dinner in Glasgow a year or two ago:

'What is the shareholder to think when M£3 is offered for the shares in a company whose balance sheet shows surplus assets of M£1.5 and where the directors of that company advise the shareholders that the offer is inadequate, particularly when the balance sheet carries the certificate of an accountant of repute that "the balance sheet shows a true and fair view of the state of affairs" of the company?'

This statement is specifically called for from the auditor by the Companies Act, though admittedly it is coupled with the words 'as shown by the books and accounts'. The balance sheet may show a true and fair view of the position as shown by the books, but seldom a true and fair view of the state of affairs

of a company, which to my mind implies a true view of its value.

In the U.S.A. the auditor reports whether the financial statements 'present fairly the financial position of the company in conformity with generally

accepted accounting principles' or not.

In Holland the words used are 'present fairly the financial position' of the company. Replacement value is frequently adopted in the Netherlands and may bring the balance sheet figures nearer to present-day value than does the historic cost less accumulated depreciation, but still 'replacement value' does not necessarily mean 'balance sheet date realizable value'.

# Legacy of Tradition

The trouble springs from the use of words in the auditor's report which are quite inappropriate and in fact misleading. This is a legacy of tradition. The auditor's duty is to report whether or not the books have been properly kept and whether or not the final statements prepared from these books, viz. the profit and capital statements, have been properly drawn up from these books in accordance with either statutory or customary requirements. The normal report does not do this. It implies far more than that and in fact could very often be challenged as being misleading and untrue. The remedy is simple. A simple change in title of the balance sheet and rewording of the terms of the report - a break with tradition - would put matters right. Will we as a profession take the necessary action before the general public start to question the value of our certificates?

The Institute of Directors, London, published a booklet last year entitled Standard Boardroom Practice. Dealing with 'Shareholder Relations' the authors write, '... directors should give shareholders the maximum permissible amount of information about what is happening to their company'. And dealing with "The Accounts' they state "The wise board will not look for excuses for keeping shareholders uninformed, but rather for opportunities to increase their knowledge of the company'.

While the extent of the information to be given is the province of the board, the practising accountant can use his influence to ensure that the shareholder is not denied any information that he may receive

without harm to the company's interest.

There is a considerable amount of opposition to the disclosure of turnover figures, on the argument that such information will be helpful to the company's competitors. It is seldom that this objection can be seriously upheld. With the facilities now available for market research, the information which can be obtained and assessed by intelligent reading of the national and trade Press etc., most companies mus have a fairly accurate picture of the progress of their competitors. Publication of turnover would enable interested parties to relate final profit to turnove and might do much to combat suggestions of profiteer ing. Shareholders, too, would have a better and more

graphic picture of the progress and efficiency – or lack of both – of the companies in which they were financially interested.

# Value of Short-term Reports

The issue of quarterly or half-yearly progress reports could be more generally adopted with advantage to the shareholders. Such reports may not be suitable for certain types of concerns and in businesses of a seasonal nature can, in fact, be misleading if comparative figures are not given. Twelve months is a long time for a shareholder to have to wait to learn how his investment is turning out. Short-term reports tend to lessen the impact of changing conditions on stock-market prices and may even bring to the notice of shareholders weaknesses in management which can be remedied before irretrievable damage is done.

There is a growing demand for directors to give some guidance as to the current value of their company's assets. This demand applies particularly in the case of land and buildings which have a value distinct from their commercial usage. Such information is essential if the shareholder is to be in a position to determine the real earnings of a company's assets. Periodical revaluations of fixed assets on the basis of current replacement cost may be the solution although it has to be kept in mind that replacement cost is by no means the same as realizable value. In France it is customary to revalue fixed assets in accordance with a Government decreed set of indices. This has the attraction that the basis of revaluation is standardized and not subject to the opinion of individual valuers.

To sum up then, while the company auditor's duty is to report to the shareholders on his examination of the books and accounts, his constant endeavour should be to ensure that any information given should be explicit, complete and free from ambiguity. He is in a position where his advice is often sought and he should miss no opportunity of urging directors to take shareholders as completely into their confidence as the interests of the company will permit. He should always keep in mind that the financial statements on which he is reporting will be read by many people to whom they are not expressly addressed. Some of these people may be more easily misled than shareholders who will at least have the opportunity of attending the meetings at which the statements are formally submitted and of asking questions and hearing explanations.

Some research into deficiencies of present company reporting with a view to ascertaining what additional information would be appreciated by shareholders and with a view to removing some of the ambiguities which at present exist, would be a worth-while exercise.

Serious consideration by research teams of the need for examination of accounting terminology is surely also long overdue in those countries which have not yet faced this vitally important task.

These problems face us as a profession. They will not get any less urgent by being postponed. They will not be solved in a year or even in two years. But solved they must be if the accounting profession is to maintain its reputation and its place in the world of affairs.

# Weekly Notes

# PRIME MINISTER ON THE COMMON MARKET

A SPECIAL pamphlet has been issued by the Conservative Central Office called Britain, the Commonwealth and Europe by Mr Harold Macmillan. While the pamphlet contains nothing very new the issues are clearly set out for those who want a summary of the impact of the European Common Market negotiations and the recent Commonwealth Prime Ministers' conference on Britain's application to join the E.C.M. as seen through the Government's eyes.

Mr Macmillan rejects the idea that this country is faced with a choice between the Commonwealth and Europe. He points out that the Commonwealth has no formal ties or obligations. In recent years economic

conditions and political sentiment in the Commonwealth has changed much. The proportion of total - Commonwealth trade done with other Commonwealth countries has fallen.

He goes on to say that the British are Europeans and that we cannot afford to isolate ourselves from Europe. He thinks that a united Europe is necessary to balance the United States and Russia and that the E.C.M. has already proved its economic vigour. He does not think that accession to the Treaty of Rome will involve a one-sided surrender of sovereignty. Our obligations would not alter the position of the Crown, rob Parliament of its essential powers nor deprive the law courts of their authority. He points out that national sovereignty is already circumscribed for all countries in the world by treaty obligations.

He believes that Britain will gain in strength from membership of the E.C.M. and that the Commonwealth will benefit from this strength. He admits that entry into the E.C.M. would mean the end of Commonwealth tariff preferences but thinks that in any case the British market is not big enough to absorb the increasing output of Commonwealth countries.

# BRITISH TRADE WITH AMERICA

SPEAKING last week in the West Country, the Parliamentary Secretary to the Board of Trade gave some useful figures of Anglo-American trade. He pointed out that the United States is Britain's largest market, accounting for about 8 per cent of total British exports in 1961 and in the first eight months of 1962. Although the level of exports to the United States has not yet returned to the record figure achieved in 1959, there has been a recovery this year and Britain is still the largest supplier of imports to the United States after Canada and Japan.

Speaking of American investment in Britain he said that this represented three-quarters of the total of inward investment into this country. It has increased from \$2,000 million in 1957 to \$3,700 million in 1961. So far as the outward flow of investment from this country is concerned, Britain is the largest direct foreign investor in that country. By 1960 our total direct investment there was \$2,250 million. The flow of investment by private enterprise in each direction is, however, of a different kind. Two-thirds of American investment in Britain is in manufacturing industry while half of the British investment in the United States has been in finance and insurance.

# HEAVY AIRLINE LOSSES

IT was expected that British Overseas Airways Corporation would make a substantial loss. In the event the Corporation lost £49.7 million for the year ended March 31st, 1962, bringing its cumulative loss to £64.6 million. The poor performance was due to a pause in the expansion of North Atlantic passenger travel in the summer of 1961 and a significant increase in the carrying capacity of all international airlines. In the case of B.O.A.C. the passenger load factor fell below 50 per cent. The operating loss for the year was nearly £14.4 million. The main item of loss, however, was a writing down of the value of its Britannias, DC-7Cs and Comets by £32.7 million.

Commenting on these figures on Monday, Sir Matthew Slattery, chairman of B.O.A.C., said: 'The day of reckoning has got to come. If you go on piling up deficits of this sort and paying interest on them there must come a time when the books do not balance any longer.' He went on to say that prospects of the Corporation getting back to a reasonable financial basis were good if the Government allowed it to write off, instead of merely write down, its accumulative losses, but he added that he thought that the financial structure of the Corporation and the way it is expected to operate are 'crazy'.

So far as is known the results for the first quarter of the current financial year have been disappointing and there may well be another deficit at the end of the present financial year. There are now indications that the international rate structure for the more competitive air routes and the replacement cost of modern airliners are now badly out of phase. There seems little sign of a letting up in the frantic technical

race to fly supersonic jets in the stratosphere and there is every indication that the cumbersome negotiating machinery for controlling air fares has now achieved that mixture of highly organized self-interest and diplomatic horse-trading which is calculated to bring the maximum amount of inflexibility to the whole rate-fixing procedure.

If there is to be any move towards remodelling the financial structure of the Corporation there should also be a complete re-thinking about the method of granting subsidies and in deciding how far airlines which operate for national prestige should maintain readily identifiable services which can never make a profit.

#### ESTATE DUTY AVOIDANCE AS A BENEFIT

N Monday the House of Lords allowed appeals by a taxpayer against the decision of the Court of Appeal in Re Pilkington's Trusts (1961) (2 All E.R. 330). A child aged 2 years had a contingent interest in a deceased person's estate, subject to prior interests. By implication, section 32 of the Trustee Act, 1952, applied to the will trusts; i.e. the trustees had power to make advancements for the benefit of the child. They purported to exercise this power by transferring funds to another trust under which the child would become entitled absolutely if she attained 30 years. This would in the normal course avoid estate duty on the deaths of the persons entitled to the income before the advancement and thus also increase the amount which she would receive. The Inland Revenue argued that section 32 did not give the requisite power and the Court of Appeal accepted this argument. The House of Lords has now held, in effect, that 'benefit' in section 32 means benefit, and is not to be cut down by reading limitations into the section (The Times, October 9th, 1962). However, the House of Lords affirmed the Court of Appeal's decision that the advancement in this particular case infringed the rule against perpetuities.

# LIFE ASSURANCE CONTINUES TO GROW

NCE again new records have been broken in industrial or 'home service' life assurance business. Returns from the twenty-three member offices of the Industrial Life Offices Association show that during 1961 premiums in this class of insurance exceeded £200 million for the first time. This income was collected from an estimated ten million households.

Payments to policyholders totalled over £141 $\frac{1}{2}$  million, also a record. This was an increase of £25.8 million over the previous year's figure, and the largest rise ever. This is a reflection of the large growth in new business, particularly endowment assurances, which has occurred during the post-war years. Net new saving resulting from industrial life business totalled £76.1 million. If the 'ordinary' life business transacted by the industrial life offices is

also taken into account, these offices were the channel for net new saving of almost £169 million.

# ACCIDENT TOLL IN INDUSTRY

ACCORDING to the report of the Chief Inspector of Factories, last year there were 192,517 accidents at work, an increase of 1 per cent on the year before. In building operations, there were 18,742 accidents reported, an increase of 10 per cent.

The figures are not quite as bad as they appear, however. The rate of accidents, that is accidents per thousand workers employed, fell slightly from 20.7 to 20.4 and there was a slight decline in fatal accidents from 675 to 669. While many concerns now have

safety officers backed by management support there is still room for improvement. The Chief Inspector's report says that there are too many firms without any safety organization at all, or one that is ineffectual.

The building industry's record in these matters leaves something to be desired although the big civil engineering and building contractors have taken an active part in furthering organized accident prevention. Some of the trouble here is that, as in other industries where there are a large number of small companies, resources are small and inspection by officials difficult to carry out. What is really required is the development of a safety system which can be shown to small companies to be effective from a safety point of view without adding significantly to their costs.

# This is My Life ...

by An Industrious Accountant

CHAPTER 141

We have a men's accessories department on the second floor, in a big bay adjoining our stationery department; it sells all sorts of expensively casual items for the luxury trade, like hogskin wallets and cocktail shakers. The gross profit is excellent usually, like the stationery beside it; we've made 40 per cent in peak months. Unfortunately both margins have dropped to an all-time low recently, and we've been rather worried as we can't trace the reason for the decline.

I was standing at the counter one afternoon, idly skimming through some dockets while waiting for the sales manager. A talk on percentages was indicated. Through a high cage-like stand of gift bridge-sets, I could just see into the stationery bay. There Smith, the senior assistant, was greeting a customer who asked for half a dozen cheap ball-point pens. Smith is one of those big, bland, smiling chaps who knows everything; he moved quickly to fill the order.

He scribbled the docket and beckoned to the assistant at the next counter to initial it, then turned back to his shelf to select and wrap up the pens. His procedure was wrong, I noted with some annoyance; according to our regulations, he should have had the pens laid out beside the docket before it was checked. For a moment I watched his broad back, his sleek head lowered between the shoulders, his elbows moving . . . his hands weren't in sight. His hands weren't in sight! strange how that rang a bell in my memory.

As a boy long ago, I had once brought home some bad fruit; the shop assistant had packed the bag with his back turned and his hands out of view, and I had lacked the hardihood to challenge him. My mother's indignant reaction had made the incident unforgettable.

Now I was watching Smith; he was turning back to his customer with his little parcel. Behind him the shelf with the expensive range - the five-guinea pens whose names are household words - was as near to him as the cheap line. That bell tinkled faintly again in my sub-conscious mind; how easy it would be to mix the different brands at stocktaking, especially when the pigeon holes weren't labelled. At stocktaking . . . or at any other time? The customer was a nice-looking, well-dressed character; perhaps there was something too smooth about his smile, too taut about his lips? Was there something indefinable in the atmosphere, or was I just being over-imaginative? Did the customer's drawled "Thanks a lot', have a note of smug amusement, or was it just normal courtesy?

I stepped briskly round the corner of the high stand into Smith's section, half expecting that my arrival might precipitate some action or gesture to crystallize my whirling impressions. No such luck. A quick but polite 'Good morning, sir', came from Smith (rather too startled, perhaps?). The customer turned on his heel and departed abruptly, but then why wouldn't he if he wanted to (no possible justification for accosting him, surely?). In a moment he was lost to view, and with him vanished the chance of examining that unchecked but perhaps highly informative parcel.

I asked Smith nonchalantly 'Who was that?' and he answered that he really had no idea, before moving briskly to greet another customer. The episode was over.

Only something shone in Smith's hard eyes that I couldn't put a name to, something watchful, and at the same time defiant and hostile. But he has a good record for years past... am I justified in suspecting on such flimsy imaginings? Shall I be wronging him if I report it up the line without a shadow of evidence? Am I morally entitled to damn his character on mere intuition?

But I'm convinced that in league with that smooth customer, he's running a pilferage scheme which accounts for that low profit margin.

# Finance and Commerce

# **Full Story**

\*FIGURES in a balance sheet can never tell the whole story' remarked Mr E. W. Pasold at the annual meeting of Pasolds Ltd, whose accounts form this week's reprint. Pasolds is the 'Ladybird' children's wear concern and at the annual meeting a share-holder asked: 'From various Press comments, it would appear that the company's growth has slowed down. Is this so?'

The question was prompted by the fact that trading profits were only some £10,000 to the good after having risen regularly by a considerably higher figure in previous years. Hence the Press comment to which the shareholder referred.

Mr Pasold answered 'Not at all. Figures in a balance sheet can never tell the whole story. The extra earnings from the increased turnover could have been used to swell our trading profit, but instead we decided to plough most of them back in the form of research, developments in the use of man-made fibres, and improved quality of our merchandise.'

Answering another question Mr Pasold said 'Manmade fibres have tremendous potentialities for us and we have spent a great deal of effort and at least £50,000 on development work. This is a non-recurring expenditure. The knowledge we have gained and the novel plant it has enabled us to construct will prove an excellent investment.'

# Begin Higher

No doubt the £50,000 and more will prove an excellent investment but it is the kind of figure which should come out in the company's accounts and not in a 'question and 'answer' session at the company meeting, more particularly if it is a special non-recurring item.

There is something in what Mr Pasold said. Accounts cannot always tell the whole story but they should tell enough to make this type of question unnecessary. 'Improved quality of our merchandise' is something that cannot be translated into figures in the profit and loss account. It could involve the use of higher quality raw materials, still better production of the article – but a non-recurring £50,000 on development work is not intangible. It needs no translation.

Although he put a round figure on development spending, Mr Pasold put no figure on the research spending through which the company is 'inventing and building all kinds of machines to improve manufacturing methods and increase efficiency in all departments'. Such a figure would have provided a

fuller answer to the shareholder's question on profit growth.

The real answer is to begin the profit and loss account much higher up the earnings ladder and to show where income went and not what the end product of trading profit was.

# Little Budget

THE accounts of J. Mandleberg & Co (Holdings) Ltd for the year to March 31st, 1962, show a trading profit of £312,842 as compared with £391,109 in the previous year. 'And it is right', says Mr R. G. Cooke, the chairman, 'that our shareholders should know that almost one-half the drop in profits is directly due to the Little Budget.' The greater part, if not all, of the balance, he adds, 'can be attributed indirectly to Government policy'.

This is a more-than-usual direct connection of lower profits with the Little Budget of July last year. Mr Cooke points out that the Chancellor's aim was to cut consumer spending. Less spending led to increased competition and thus to lower margins. And, secondly, he points to the 28 per cent increase in costs of fuel, the Little Budget's impositions and the 30 per cent rise in Bank rate. '30 per cent' puts a new angle on a Bank rate change.

The company is a big name in rainwear 'both' pretty and practical' and its rubber and plastics division has an important place in those fields, covering such widely diversed products as life rafts and industrial protective clothing.

#### Solution

THE Triplex Holdings accounts for the year to June 30th, 1962, cleverly solve the problem posed by a revaluation of assets undertaken just after the end of the financial year – on July 2nd. The parent and group balance sheet figures are provided in columnar form against a single narrative with comparison on a blue background on what would normally be the right-hand edge of the page.

The page, however, is extended by a flap which, when turned over, covers the 1961 comparative figures and provides the parent and group balance sheet figures as at July 2nd, taking the revaluation into account. The main differences between the June 30th and July 2nd group figures are an increase from £2,341,569 to £4,795,204 in fixed assets and an attendant increase from £863,203 to £3,318,803 in reserves.

Mr Joseph Steel, the chairman, explains that land and buildings were revalued by professional valuers on the basis of 'vacant possession and planning permission for industrial use excluding any development value'. For plant, present-day replacement costs were estimated and were then written down taking into account the number of years each item had already been in use, their future estimated lives and the effect of technical improvements in similar plant and machinery now available.

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SALANCE SHEET OF PASOLDS LIMITED 31st March, 1962	•	CONSOLIDATED BALANCE SHEET	
7961	: 1961	OF PASOLDS LIMITED AND ITS TEN SUBSIDIARIES 31st March, 1962	23
-	£ 470 036	3 7 7 F	3 1961
Flant and Machinery, Vehicles and Equipment	43,744	794,246	43,744
1,067,198	808,480		13,136
'RADE INVESTMENTS (Note 2) 139,769	114,769	1,410,733 1,0 1,0 1,0 1,0 1,0 1,0 1,0 1,0 1,0 1,0	7,011,599 240,939
NTEREST IN SUBSIDIARIES (Note 3) 582,349	488,312		,
Stock-in-Trade at or below cost (Mote 5a) 1,362,418 Debtors and Payments in Advance less Provisions 119,201	1,156,815	-	788,743 392,961
:	375,784	,736,972	2,547,668
Ess CURRENT LIABILITIES AND PROVISIONS: Trade and Other Creditors Trade and Other Creditors Table Overdraft, Unsecured Table Overdraft, Unsecured Table Overdraft, Unsecured	225,398 151,394	89,145	114.983
Dividends, less income Tax	81,504	779'579	C74'C#0
641,366	539,796	NET CURRENT ASSETS 1,913,350	1,901,743
NET CURRENT ASSETS 907,780	1,132,779	£3,463,852 £3,1	£3,154,281
960'049'0	£2,544,340	FINANCED AS FOLLOWS: SHARE CAPITAL:	
INANCED AS FOLLOWS: Anter CAPITAL:		Shares of 5s. each 1,250,000 Shares of 5s. each 250,000	1,250,000
1,000,000 "B" Ordinary Shares of 5s. each 1,250,000 (1,000,000 "B" Ordinary Shares of 5s. each 1,000,000 "B" Ordin	1,250,000	61,500,000	61,500,000
000'005'17	£1,500,000	Issued and fully paid: 380,000 'An Ordinary Shares of 5s. each 960,000	000'096
Issued and fully bald: 3,840,000 "A". Ordinary Shares of 5s. each	960,000	1,210,000	750,000
•	1,210,000		000 38
LESERVES (Note 4): Capital: Share Premium 395,000	385,000	Redemption of Debentures 12,671	95,997
Sinking Fund for Redemption of Debentures 12,671	8,220	Revenue: Profit and Loss Account	489,217
Revenue: Profit and Loss Account 656,620	419,625	1,647,837	1,328,421
969'080'i	868,040	7,	2,538,421
67,270,696 ALANITER LINITER KINGDOM TAXATION:	2,0/8,040	100,817	79,227
Income Tax  Taxation deferred by Initial Allowances	244,500 30,000	FUTURE UNITED KINGDOM TAXATION: Income Tax Taxation deferred by Initial Allowances 43,000	314,833
19,000 1% FIRST MORTGAGE DEBENTURE STOCK 1959/79 187,400	274,500	5½% FIRST MORTGAGE DEBENTURE STOCK 1959/79 187,400 1	344,833
7,697,096	£2,544,340	£3,463,852	£3,154,281
ROLF PASOLD    PASOLD   Pirectairs   PASOLD   PA		ERIC W. PASOLD)  ROLF PASOLD  ∫ Directors	

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Pasolds Limited and its ten subsidiaries for the year ended 31st March, 1962

f 1961 819,403 110,852 1,000 15,000 2,168	6.860 13,712 20,572 839,975 103,685 103,685 18,466 18,846 436,539	2,000 2,000 394,536 3,501 391,055	75,379 6,125 81,504 — — 4,220 85,724	305,331 282,180 282,180 533,873 449,415 390,789 839,204
TRADING PROFIT (Note 5a) 829,412  after charging: Depreciation (Note 5b) 123,918 Emoluments of Directors of Pasolds Limited: 1,000 Management Remuneration and Pension Scheme 1,000 Contributions 1,000 Auditors' Remuneration and Expenses 2,061	INCOME FROM INVESTMENTS:  Trade  Other  Less Debenture Interest  Less Taxation (based on profits for the year):  U.K. Profits Tax  Overseas Tax  Overseas Tax	Add Transfer to Reserve for Taxation deferred by Initial 7,000 Allowances Allowances NET PROFIT AFTER TAXATION Less Interest of Outside Shareholders in the profit of a 3,200 subsidiary company NET PROFIT OF GROUP APPLICABLE TO PASOLDS LTD	Deduct APPROPRIATIONS: Proposed Dividends, year to 31st March, 1962 (Note 6) (Note 6) "B". Ordinary Shares 174%, less tax 6,699 "B". Ordinary Shares 44%, less tax 6,699 B9,145 Additional sum set aside for deferred Taxation due to an increase in the rate of Profits Tax 6,000 Trainsfer to Sinking Fund for Redemption of 4,451 Debentures 99,596	SURPLUS brought forward from previous year: Pasolds Limited  PROFITS UNAPPROPRIATED at 31st March, 1962: Subsidiary Companies  Subsidiary Companies  1,182,068

# NOTES ON THE ACCOUNTS

The foregoing Accounts should be considered in conjunction with the following notes:

Plant, Machinery, Vehicles, etc. Pasoids Ltd Group	909,431 1,081,608 498,004 589,430 £411,427 £492,178	31st March, 1961 Pasolds Ltd Group 114,769 114,769 114,769 1240,339		Sinking Fund for Redemption of Debencures Pasolds Ltd Group 8,220 8,220 4,451 4,451	£12,671 £12,671
uildings Leasehold Pasolds Ltd Group	59,620 127,841 3,532 3,532 £56,088 £124,309	31st March, 1962 Pasolds Ltd Group £ 139,769 139,769 £139,769 £139,769	268,278 508,278 735,147 5822,349	General Group 6, 997	£68,096 g special provisions: rovide for a fall in th
Land and Buildings Freehold Pasolds Ltd Group Pasolds	Deprecia. 738, 157 982, 186 Deprecia. 138,474 187,940 Deprecia. 1559,683 £794,246	VESTMENTS	TERESTS IN SUBSIDIARIES Shares at Cost Amounts due by Group Companies Less Amounts due to Group Companies Per Balance Sheet	Details of movements in Capital Reserves are:  Balances at 1st April, 1961  Transfer from Profit and Loss Account  Less Exchance Differences on Consolidation	Balances at 31st March, 1962
I. FIXED ASSETS	Original Cost Provision for Depreciation tion	2. TRADE AND OTHER IN Trade at Cost Other (Quoted) at Cost Per Balance Sheet	3. INTERESTS IN SUBSIDIARIES Shares at Cost Amounts due by Group Con Less Amounts due to Grou	4. RESERVES Details of movements in C Balances at 1st April, 1961 Transfer from Profit and L Less Exchange Difference	Balances at 31st March, 1962 .  5. PROFIT AND LOSS ACCOUNT Last year's figures ind (a) Stock-in-Trade was reduced (b) Stock-in-Trade with 1961.

(b) Depreciation included an amount of £8,210 in respect of Special Depreciation on Land and Buildings.

6. PROPOSED DIVIDENDS

M. Pasold, Joint Managing Directors, have waived the dividend recommended on the whole of their holdings of "A" Ordinary Shares. Such dividend would have cotalled £20,454, after deduction of tax, and is excluded from the proposed dividends in the accounts.

7. 5½% FIRST MORTGAGE DEBENTURE STOCK 1959/79
The Company is required to make annual provisions for the partial redemption of the Stock.

CONTINGENT LIABILITIES—in respect of partly paid shares in overseas subsidiaries were:— Pasolds Ltd, D. Marks 11,000; a subsidiary, D. Marks 4,000.

9. CONTRACTS FOR CAPITAL EXPENDITURE
Forward commitments not provided for in the Accounts are estimated to amount to £112,600. FOREIGN ASSETS AND LIABILITIES
 The book value of assets and liabilities of the overseas subsidiaries have been converted into sterling at the rates of exchange ruling at 31st, March 1962.

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# CITY NOTES

PAR from turning on the re-expansion mood in the investment markets the Chancellor of the Exchequer has apparently induced a mood of deflation to the Stock Exchange. Hopes of an early Bank rate reduction have receded very considerably following Mr Maudling's references to the difficult external position and the dangers inherent in too forceful a development of home demand.

The gilt-edged market has lost its strength and the equity sections, formerly buoyed up by the firmness in the funds, have turned decidedly easier. While industrial company news has not been entirely discouraging, it is appreciated that what encouraging news on profits and dividends there has been, has come lately from specialized companies whose results are not necessarily a line to the general trend of industrial earnings.

With a busy season of industrial company profit and dividend announcements ahead, the market in equities is open to 'disappointments' particularly in cases where there has been some recent support on longer term re-expansion grounds. Company results are likely to bring the equity market face to face with current facts whereas in the past few weeks they have been optimistically indulging in hopes for the future

Considered opinion is that, despite receding B rate hopes, there is stronger basis for fixed interest investment than there is for support for the equity markets. That view is taken on economic grounds -Common Market and General Election uncertainties tend to reinforce it.

#### RATES AND PRICES

Closing prices, Wednesday, October 10th, 1962

		ty, October 10th, 19	
Tax Reserve Certif			8.62 24%
	Bank l	Rate	
Oct. 27, 1960	5½%	Nov. 2, 1961	6%
Dec. 8, 1960	5%	Mar. 8, 1962	5 <del>1</del> %
July 26, 1961	7%	Mar. 22, 1962	5%
Oct. 5, 1961	6½%	April 26, 1962	4½%
	Treasur	y Bills	
July 27 £3 178 8	804%	Aug. 31 £3 158	0.424%
Aug. 3 £3 16s 5		Sept. 7 £3 148	4.554%
Aug. 10 £3 158 8		Sept. 14 £3 138	11.97d%
Aug. 17 £3 158 8	35d%	Sept. 21 £3 145	
Aug. 24 £3 158 4	50d%	Oct. 5 £3 125	
,	Money	Rates	
Day to day 2%	-3 <del>7</del> %	Bank Bills	
7 days 22	-31%	2 months	37-318%
Fine Trade Bills	38/0	3 months	37-318% 37-318%
3 months 5½	-6%	4 months	3 1 1 %
	-6%	6 months	38-4%
	$-6\frac{1}{2}\%$	o 222022410	J8 T/0
		changes	
	2.80 ∰	Frankfurt	11.214
	10.18	Milan	1739
	0.00 <sup>‡</sup>	Oslo	20.02 4
	9.39 <del>§</del>	Paris	13.723
T	$0.39\frac{8}{1}$	Zürich	12.113
J	Gilt-e	dged	
Consols 4%	68#	Funding 3% 59-6	69 91 <del>1</del>
Consols 2½%	44*	Savings 3% 60-76	89
Convision 5½% 1974	1042	Savings 3% 65-7	5 83
Conversion 5% 1971	1022	Savings 21 % 64-6	7 921
Conversion 3½% 1969		Treas ry 51 % 200	
Conversion 3½%	60 <del>1</del>	Treasury 5% 86-	
Exchequer 51% 1066	1021	Treasury 24% 77	-8o 8i∯
Exchequer 5½% 1966 Funding 5½% 82-84 Funding 4% 60-90	1017	Treasury 3½% 77 Treasury 3½% 79	-81 80 <del>§</del>
Funding 4% 60-00	051	Treasury 2½%	43 2
Funding 3½% 99-04	68 <del>1</del>	Victory 4%	98 <del>1</del>
Funding 3% 66-68	93	War Loan 3½%	611
1. dildilg 3 /0 00-00	93	Mar Twart 38 \0	014

# Current Law

# Hotchpot Directions in Will

HE testatrix in Re Slee, Midland Bank Executor and Trustee Co Ltd v. Slee and Others ([1962] 1 All E.R. 542) directed that in the distribution of her net residuary estate the beneficiaries should bring into hotchpot any benefits which they had received in certain funds over which the testatrix had powers of appointment.

Following Re Wills, Dulverton v. Macleod ([1939] 2 All E.R. 775), and Re Hillas-Drake, National Provincial Bank Ltd v. Liddell ([1944] 1 All E.R. 375) in preference to Re Mansel, Smith v. Mansel ([1930] 1 Ch. 352), Cross, J., held that the funds in question should be valued as at the date of actual distribution, not at the date of the testatrix's death;

that interest at 4 per cent on the amount of the advances should be added to the income actually received between the date of death and the date of actual distribution and the resulting income figure divided among the beneficiaries, the advanced beneficiaries being debited with interest at 4 per cent on their advances; and that on the distribution of the capital the amount of the advances should be added to the sum actually in the hands of the trustees to be divided together also with the amount paid by way of death duties on the funds in question other than the residuary estate. The gross sum was then divisible between the beneficiaries, the advanced beneficiaries being debited with their advances. In this way the incidence of duty was evenly spread.

# Operative Signature not Attested

N In the Estate of Bercovitz, Canning and Another v. LEnever and Another (Siemer van Hemert and Others intervening) ([1962] 1 All E.R. 552), the Court of Appeal affirmed the decision of Phillimore, J., ([1961] 2 All E.R. 481) that the testator's will was not

duly attested. He signed it at the top and also at the end, but the witnesses' signatures were subscribed to the testator's signature at the top of the will only.

The circumstances of their subscription were stated in these columns on November 11th, 1961. The argument in the Court of Appeal that the learned judge had failed to have proper regard to the maxim omnia praesumuntur rite esse acta and should have applied the presumption of due execution was rejected on the ground that the maxim was relevant where the evidence was consistent with the intention to do some formal act having been carried into effect in a proper way, whereas the evidence, which Phillimore, J., accepted, in the present case was not consistent with the intention to execute the will in the proper way.

# Charge of Annuity on Trust Fund

WO quite different points arose for decision in Re Chance, Westminster Bank Ltd v. Chance and Others ([1962] 1 All E.R. 942). The first question was whether certain annuities were a continuing charge on income or were only payable out of income of the year in respect of which they had accrued. The testator directed that the income of his residuary trust fund be held on trust (a) to pay his wife an annuity of £800 per annum which he directed should become a first charge on income and capital; (b) without recourse to capital, to pay each of his four children an annuity of £208 per annum; and (c) subject to (a) and (b), to pay the balance (if any) of the income from the trust fund to his wife. The doubt which arose was as to whether the annuities in (b) were a continuing charge on income so that in case of deficiency in any year or years they were payable out of the income of the other year or years, or whether they were payable in respect of each year only out of the income of that

Wilberforce, J., held that the annuities in (b) were a continuing charge to this extent, that in so far as they were not satisfied in one year they must be made up out of the income of future years: but that, in view of the express direction in (c) that the balance of income was to be paid to the widow, surplus income in any year should not be retained to meet deficiencies of income in future years.

# Apportionment between Capital and Income

The second question in Re Chance was concerned with the apportionment between capital and income of sums of money which were received by the trustee by way of capital and income compensation under section 14 (1) of the Town and Country Planning Act, 1954, and which fell into residue. Under the will the trustee held the residuary estate on trust for sale and conversion with power to postpone sale and so that any reversionary interest should not be sold until it fell into possession unless the trustee saw special reason for sale; and the testator expressly directed that his trustee should, at the earliest date after his death, but entirely at the trustee's discretion, sell and dispose of any property which was not income-producing or showed an income of less than 2 per cent per annum. The trustee was authorized to retain all or any properties showing a fair interest and required to invest the residue in trustee securities. There followed the direction for the payment of annuities out of the income of the fund to which reference has been made above, the clause in question containing a specific reference to income of investments authorized to be retained including the unconverted part of the residuary estate.

Rejecting an argument that these provisions had the effect of excluding the application of the rules as to apportionment, Wilberforce, J., held that the Rule in Re Earl of Chesterfield's Trusts ((1883) 24 Ch.D. 643) applied to the sums of compensation received, and accordingly that each payment must be apportioned as a whole, capital and interest together, the basis of calculation being that so much of the payment of principal and so much of the payment of interest as, if laid out with compound interest computed at 4 per cent per annum with yearly rests (less income tax) from the date of the testator's death, would have produced at the date of receipt the sum received should be treated as capital and the rest as income.



# Non-registration of Charging Order

"HIS note on Re Overseas Aviation Engineering (G.B.) Ltd, supersedes that inadvertently published in last week's issue which only dealt with the proceedings in the High Court. The proceedings in the Court of Appeal have now been reported ([1962]

3 All E.R. 12).

The appeal, by the judgment creditor, was in fact dismissed, but the Court of Appeal (Lord Denning, M.R., and Harman and Russell, L.JJ.) unanimously overruled Pennycuick, J.'s, decision that the charging order obtained by the judgment creditor required for validity registration under section 95 of the Companies Act, 1948. Their lordships found nothing in section 35 (3) of the Administration of Justice Act, 1956, which was apt to constitute a charging order conferred by section 35 (1) a 'charge created ... by a company' for the purposes of section 95 of the Companies Act. On the contrary, the reference in section 35 (3) of the Act of 1956 to registration under the Land Charges Act, 1925, and the Land Registration Act, 1925, indicated that no other kind of registration was necessary for validity. Moreover, it would not be natural to alter without express words the law relating to limited companies, or to place upon a company, as an artificial person, a requirement which was not in similar circumstances required of a natural person.

Pennycuick, J., having decided as he did, it was not necessary for him to answer the second question put to him, namely, whether the judgment creditor was

# FOR STUDENTS

# EXECUTORSHIP LAW

#### Variable Definitions

DEFINITIONS have an unhappy habit of varying for different purposes. No sooner is a definition learnt than it must be modified in a particular case. A number of examples can be found centred upon estate duty – most of them dealing with matters that are particularly important from an examination point of view.

#### Settled property

As a general rule the term 'settled property' applies to property settled upon persons in succession. In an executorship problem the assets of the estate may include an interest in property settled in this way. The interest may be one of three varieties:

- (a) The testator may have been the life-tenant of the settled property; i.e. he may have enjoyed the income from the property either solely or with others.
- (b) He may have had an interest contingent upon the happening of a certain event or upon his surviving to a certain age.
- (c) He may have had a reversionary interest or an interest in remainder; i.e. he may have been entitled to the property once all prior interests were satisfied.

The settlement giving rise to such an interest may have been *inter vivos* or testamentary and, in the former case, may have been made by the testator himself or by another person.

From the point of view of our original definition, all three interests are interests in settled property and should be classified as such. When, however, we are computing the duty payable they are not all dealt with in the same way.

In (a) duty is paid by the trustees of the settlement on the value of the property released by the death of the life-tenant. (Any 'cesser of interest' is settled property in this sense.) In (b) the interest is unlikely to survive the deceased, in which case, as he had no vested interest, no property passes on his death and no duty is payable. (Where his interest is vested but not to take effect until some future date, then it will pass with his estate and duty will be payable by the trustees as in (a) unless, of course, the interest is an interest in remainder.) In (c) the duty is payable by the estate on the present value of the expected remainder with an option to defer calculation of the duty until the interest falls in.

The foregoing deals with the incidence of duty. The next point to consider is aggregation. Where property other than settled property is less than £10,000, then the settled property is not aggregated with it for purposes of fixing the rate of duty.

At this point the definition breaks down. Reverting to our three examples above, (a) is settled property for non-aggregation purposes only provided that the deceased was not the original settlor or supplied the funds of the settlement. Nor would it be counted as settled where the testator was in any way able to dispose of his interest either in his will or by a power given in the settlement. The same would apply to (b).

As for (c), such an interest is rarely contingent; it is something of which the interested party is nearly always competent to dispose and would therefore be free, and not settled, property for aggregation purposes.

# Law of Commorientes

Another example of a definition not applying for all purposes arises from the law of commorientes. This states, briefly, that where two persons die in circumstances where it is impossible to state who died first, then it is assumed that the younger survived the older.

Though this still applies for purposes of determining succession, it is ignored for duty purposes and in the circumstances stated both persons are presumed to have died at the same instant.

# Gifts and advances

A third and final example concerns advances made inter vivos. Advances must be considered as:

- (a) gifts inter vivos eligible for duty;
- (b) advances to be brought into hotch-potch on an intestacy;
- (c) advances that may extinguish part or all of a legacy by virtue of the doctrine of satisfaction.

In each case the question of what is an advance will be answered differently.

In (a) an advance (being a sum given freely to any person) is dutiable if made within the previous five years (twelve months for charitable donations). For such purposes advances do not include those which were:

- (i) made in contemplation of marriage;
- (ii) part of normal expenditure and reasonable with reference to the income of the deceased;
- (iii) of less than £500 to the same donee (£100 where it includes settled property).

Advances for the purpose of hotch-potch (b) are not the same as for the purposes of duty. They are payments by a parent to a child of part of the portion that the child would otherwise have received on the death of the donor. The amount or purpose is not important provided the sum is substantial and of permanent benefit to the child, e.g. an amount given in consideration of marriage, or to set the child up in business. In a partial intestacy benefits taken by children under the will may rank as advances to be brought into account on the final distribution.

In (c) the purpose of considering advances is to prevent the giving of double portions to beneficiaries. The relevant cases are those where the testator, having left a sum of money to a person in his will, makes a subsequent gift of the same or a lesser sum to the same person. The question is whether the gift extinguishes the legacy. For it to do so, the property subsequently given must be substantially the same as that comprised in the legacy and both must be certain (or both contingent) and subject to the same conditions. If the gift is to someone to whom the donor stands in loco parentis there is a presumption of satisfaction. In other cases the opposite is presumed.

# Notes and Notices

#### PROFESSIONAL NOTICES

Messrs Binder, Hamlyn & Co and Messrs Russell Tillett & Co announce that agreement has been reached for the amalgamation of the practices at present carried on by them in London, Manchester and Bradford. As a first step the present partners of Binder, Hamlyn & Co will be joined on January 1st, 1963, by Messrs D. J. Kean, T.D., F.C.A., and J. S. Copeland, A.C.A., in London, and by Mr E. Midgley, F.C.A., in Manchester. For the time being both firms will continue in being with their existing partners.

Messrs Broads, Paterson & Co, Chartered Accountants, announce that they have taken into partnership on October 1st, 1962, Mr C. R. Warman, A.C.A., Mr B. F. Emmerson, F.C.A., and Mr S. F. Phillips, A.C.A., who have all been with the firm for a number of years.

Messrs M. W. Burrough & Co, Chartered Accountants, of 10 South Street, Bridport, announce that as from October 1st, 1962, thay have taken into partnership Mr G. F. Burrough, A.C.A., and Mr K. L. Palk, F. C. A.

Messrs Graham, Smart & Annan, Chartered Accountants, of 22 Charlotte Square, Edinburgh 2, announce that Mr Reginald Sydney Brown, B.Com., C.A., has been assumed a partner of the firm as from October 1st, 1962. The firm name remains unchanged.

Mr W. A. HARRISON, F.C.A., announces that as from October 1st, 1962, he has been joined in partnership by Mr D. F. Byrne, B.A., F.C.A., and Mr D. A. PALMER, A.C.A., and that the practice will be continued at 1 Triangle Chambers, Upper Richmond Road West, East Sheen, London SW14 under the style of W. A. HARRISON & Co. The practice carried on at Kingston upon Thames by Mr D. F. Byrne and Mr D. A. PALMER in partnership under the style of Byrne, PALMER & Co, remains unaltered.

Messrs Keith Paterson & Co, Chartered Accountants, of 139 Norfolk Street, Sheffield 1, announce that as from October 1st they have admitted into partnership Mr D. B. Shaw, A.C.A., who has been previously a member of their staff.

Messrs Howard Smith Thompson & Co, Chartered Accountants, announce that they have taken into partnership Mr A. C. S. Hordern, A.C.A., as from September 30th, 1962.

Messrs Starkie & Naylor, Chartered Accountants, of 10 East Parade, Leeds 1, announce that they have taken into partnership Mr P. L. Wood, A.C.A.

Messrs Warmsley & Roberts, Chartered Accountants, of 56 Ainsworth Street, (Refuge Assurance Building), Blackburn, announce that as from October 1st, 1962, they have taken into partnership Mr Alan Hayes, A.C.A., who has been with the firm for the past eleven years. The name of the new firm will be Messrs Warmsley Roberts & Hayes.

Messrs Whitehill Marsh Jackson & Co, Chartered Accountants, of London and Birmingham, announce the opening of a branch office at 103 Promenade, Cheltenham, as from October 22nd next. Mr G. M. Raine, A.C.A., will be the resident local partner.

Messrs Charles R. Whitnall & Son and Messrs Frank W. Langley & Co, announce that they have amalgamated their practices as from October 1st, 1962. The combined practice will be carried on by Mr C. Dudley Whitnall, F.C.A., and Mr Frank W. Langley, F.C.A., under the style of Whitnall, Son & Langley, at 14 Tithebarn Street, Liverpool 2.

Messrs Arthur Young & Co, announce that Mr C. R. Warman, A.C.A., is returning from Indonesia to take up a London partnership, and that Mr B. F. Emmerson, F.C.A., and Mr S. F. Phillips, A.C.A., who have both been with the firm for a number of years, have been taken into partnership on October 1st, 1962.

#### **Appointments**

Mr H. Chesley Boyd, F.C.A., a partner in the Belfast firm of Atkinson & Boyd, Chartered Accountants, has been appointed to the Transport Tribunal for Northern Ireland.

Mr G. J. Brown, A.C.A., has been appointed secretary of N. Greening & Sons Ltd and assistant secretary of The British Wedge Wire Co Ltd.

Mr I. G. Buchan, c.A., a director of Samuel Osborn & Co Ltd, has been appointed secretary of the company as from September 29th, 1962, and Mr J. Burgoyne, A.C.A., A.C.W.A., accountant of the company, has been appointed a local director as from October 1st, 1962.

Mr George C. Hamilton, F.C.A., chief accountant and assistant secretary of John Crossley & Sons Ltd, has become secretary of the company.

Mr K. M. Hepburn, F.C.A., has been appointed President of The British Waterworks Association for 1962–63.

Mr H. V. G. Upton, F.C.A., has been appointed general manager finance and accounts of Shell-Mex and B.P. Ltd.

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#### POST-WAR CREDITS

The Chancellor of the Exchequer has announced a proposal to pay Post-War Credits to men over 60 and women over 55 (instead of men over 63 and women over 58 as at present). Payment under this proposal cannot begin until Parliamentary approval has been given. This is expected early in November 1962; a further announcement will then be made and claim forms will be available in Post Offices.

# REVENUE PAPER Michaelmas Sittings, 1962

The following cases are down for hearing during the Michaelmas Term:

HOUSE OF LORDS

C.I.R. v. Henry Ansbacher & Co.

C.I.R. v. Lord Rennell and Another.

British Commonwealth International Newsfilm Agency Ltd

v. Mahany (Inspector of Taxes).

COURT OF APPEAL
Seaward and Others v. Varty.
Binns Ltd v. C.I.R.
Musker v. English Electric Co Ltd.
C.I.R. v. English Electric Co Ltd.
Jarrold v. John Good & Sons Ltd.
C.I.R. v. Verdon-Roe.

C.I.R. v. Verdon-Roe.

High Court (Chancery Division)
Thomas v. Harry Brooke.
C.I.R. v. Scott.
Elson v. Prices Tailors Ltd.
Piller v. Temperley.
Petrotim Securities Ltd (formerly Gresham Trust Ltd) v.
Ayres.
Humbles v. Brooks
Wickwar v. Berry.
Joseph L. Thompson & Sons Ltd v. Chamberlain.
W. P. Marshall Ltd v. Robertson.

Wetton, Page & Co v. Attwooll. Earnshaw v. Cohen.

Leach v. Pogson.
Lynch v. Davies.

C.I.R. v. Clifforia Investments Ltd.

F.S. Securities Ltd (formerly Federated Securities Ltd) v. C.I.R.

C.I.R. v. Craven Brothers (Manchester) Ltd.

# INDEX TO THE JENKINS REPORT

An index to the report and the minutes of evidence of the Company Law Committee has now been published. The index includes a table of cases and a list of witnesses who gave oral evidence to the Jenkins Committee whose report was published on June 21st last. Copies are obtainable from H.M.S.O., price 2s (by post 2s 4d).

The minutes of evidence, consisting of the oral evidence and the written evidence to which it referred, were published separately, between November 9th, 1960, and June 14th, 1961. They are available from H.M.S.O. in nineteen parts, price £4 5s.

# BIRMINGHAM AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The next meeting of the 1962-63 session of the Birmingham and District Society of Chartered Accountants will be held on October 17th, when Professor H. C. Edey, B.COM., F.C.A., Professor of Accounting in the University of London, will give an address on 'Education for accountancy'. Other meetings have been arranged as follows:

November 12th: Sherry party for new members of the Society.

November 19th: 'Unit trusts', by Mr O. P. Stutchbury, manager, Save and Prosper Group of Unit Trusts.

December 3rd: 'Productivity with relation to wages and work study', by Mr J. N. Collis, F.C.A. (This meeting is in connection with the National Productivity Year.)

January 4th, 1963: Annual dinner at the Grand Hotel. January 28th: "The chartered accountant in the 1960s', by Mr T. A. Hamilton Baynes, M.A., F.C.A.

February 18th: Joint meeting with the Association of H.M. Inspectors of Taxes.

March 29th: Annual ball at Solihull Civic Hall.

April 24th: One-day conference at Birmingham University.

Except where otherwise indicated meetings will be held at the Queens Hotel, commencing at 6 p.m. Tea will be served from 5.15 p.m. onwards to members obtaining tickets from the Chartered Accountants' Library, 36 Cannon Street, Birmingham 2.

# NORTH LONDON DISCUSSION GROUP

The first meeting of the 1962-63 session of the North London Discussion Group of Chartered Accountants will take place at the Hotel Russell, Russell Square, London WC1, on Wednesday next, October 17th, at 6 p.m. for 6.30 p.m. The subject for discussion will be 'Some thoughts on the capital gains tax', leader Mr B. R. Pollott, M.A., F.C.A. New members and visitors will be welcome. The honorary secretary of the group is Mr P. D. Knox, A.C.A., Somerset Cottage, Duxhurst, near Reigate, Surrey.

# THE INSTITUTE OF INTERNAL AUDITORS Yorkshire Chapter

The next meeting of the Yorkshire Chapter of The Institute of Internal Auditors will be at The Grand Hotel, Sheffield, on October 16th, at 7.30 p.m., when the speaker will be Mr Bradford Cadmus, Director of Research and Education of the Institute who is making a world tour and will be visiting Chapters in four continents. The subject of Mr Cadmus's address will be 'Internal auditing in the world of today—and the future'.

Non-members will be welcome and further particulars regarding the Chapter's activities may be obtained from Mr A. E. Gardner, Divisional Internal Auditor, National Coal Board, Ellers Road, Bessacarr, Doncaster.

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# Birmingham Chapter

Mr Cadmus will also address a meeting of the Birmingham Chapter on Monday next, commencing at 6.30 p.m. at The Queens Hotel, Birmingham. Readers wishing to attend the meeting are asked to advise the secretary of the Chapter, Mr R. J. Lucas, West Midlands Gas Board, 5 Wharf Lane, Solihull. Telephone: Solihull 4861.

# THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

# **Next Week's Meetings**

The following meetings of the London Students' Society will be held during next week:

Monday, 'Practical aspect' lectures for Intermediate students, at the Institute: "The accountant's place in an industrial organization', by Mr E. H. Davison, F.C.A., financial director, General Electric Co Ltd; "The work of executors and trustees', by Mr D. H. Johnson, M.A., A.I.B.; 'Costing', by Mr J. B. Charles, F.C.A., F.C.W.A.; 'Accounting for management', by Mr Christopher I. Bostock, M.A., F.C.A.

5.30 p.m. at the Institute: Lecture on 'Making the most of your staff', by Mr H. T. Sharpe, B.COM., F.C.A., F.C.I.I., chief accountant, Beacon Insurance Co Ltd.

Tuesday, 'Practical aspect' lectures for Intermediate students, at the Institute: 'The practical view of auditing', by Mr S. J. D. Corsan, F.C.A.; 'Banking practice', by Mr G. I. Williamson, chief foreign manager, Midland Bank; 'Stock exchange practice', by Mr C. H. Dreyfus, member of the Stock Exchange.

5.30 p.m. at the Institute: Lecture and demonstration of Kalamazoo accounting methods (limited number).

Wednesday, 'Practical aspect' lectures for Final students, at the Institute: "The chartered accountant and accounting mechanization', by Mr Kenneth G. Bishop, A.C.A., chief accountant, Yardley & Co, Ltd; 'The finance of foreign trade', by Mr P. J. Shaw, assistant chief foreign manager, Midland Bank; 'Economic effects of taxation', by Mr A. R. Ilersic, M.SC. (ECON.), B.COM. 6 p.m. at the Institute: Joint debate with Westfield

6 p.m. at the Institute: Joint debate with Westfield College on "This house considers that marriage leads to bondage". '59 Club' discussion on 'Education and training,' with the District Society Management

Discussion Group.

Thursday, 'Practical aspect' lectures for Final students, at the Institute: 'Building societies - their functions and financial structure', by Sir Bruce Wycherley, M.C., F.C.I.S., managing director, Abbey-National Building Society Ltd; 'Assurance and insurance', by Mr S. R. Fenwick, F.C.I.I., manager, Home Accident Department Prudential Assurance Co Ltd; 'Receiverships and bankruptcy practice (including deeds of arrangement)', by Mr Leslie Cork.

5.15 p.m. at the Institute: Introductory course lecture on 'The fundamentals of accountancy', by Mr R. J. Carter, B.COM., F.C.A., secretary of the Students' Society.

#### SEVENTY-FIVE YEARS AGO

From The Accountant of October 15th, 1887

A Weekly Note

RECENT events in the Insurance world confirm the correctness of the opinion several times expressed in these columns, that sooner or later, and sooner rather than later, it would be exceptional to find a British Life Office whose accounts were not professionally audited. At extraordinary general meetings of the shareholders in the Briton Medical and General Life Association several resolutions were passed and confirmed, with the object of revising and improving some of the clauses of the supplementary deed of settlement of the Association. Amongst other changes which these resolutions will effect, will be the audit of the accounts by three auditors, one, who must be a shareholder, called the shareholder's auditor; another, who must be a policy-holder, but not necessarily a shareholder, called the policy-holder's auditor; and, as the third, "a chartered accountant, or firm of chartered accountants, who shall undertake to audit the accounts of the Association at least four times in his or their year of office, and who .... shall be called the directors' auditor." presume the practice of appointing auditors to represent different classes of persons interested is too well established to be departed from; though the custom implies some possibilities and probabilities which in a strict, impartial, and competently conducted audit would scarcely arise. In practice the auditor who, in this case, is called the "directors' auditor" no doubt really does the work and takes the responsibility.

7.15 p.m. at Reading: Lecture on 'The European Free Trade Area and The Common Market', by Dr C. R. Curtis, M.SC. (ECON.), PH.D., F.C.I.S.

Friday, 5.15 p.m., at the Institute: Introductory course lectures on 'The profit and loss account and balance sheet', by Mr R. J. Carter, B.COM., F.C.A., secretary of the Students' Society and 'The English judicial system (II)', by Mr Patrick W. Medd (Barrister-at-law).

# LIVERPOOL SOCIETY OF CHARTERED ACCOUNTANTS

In a match played on September 20th, at the Royal Liverpool Golf Club, the Society was defeated by the Liverpool Law Golfing Society by four matches to two with one halved.

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# ACCOUNTANT

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# Debate on Decimals

HILE informed opinion is solidly in favour of the United Kingdom adopting decimal coinage — subject to any insuperable difficulties which the Committee of Inquiry now sitting under the chairmanship of Lord Halsbury may (but is not likely to) discover — two large practical questions have yet to be settled. The first is the choice of a suitable system. There are three main possibilities: that which retains the pound with either 100 or 1,000 sub-units; the 10s/cent system; and the 8s 4d/penny system. The first of these remains faithful to the pound and the third to the penny. The second abandons both. The second question is how best to effect the change-over with the minimum of expense and disruption not only to the big business of commerce but also the small business of everyday life.

Both questions were examined in some detail at a conference on decimal coinage held in Guildhall, London, on Friday of last week by The Chartered Institute of Secretaries. Some four hundred members of the Institute and kindred professional bodies attended when, in addition to addresses by five speakers, a panel of experts dealt with questions put to it by the delegates present. The standard of the papers submitted and of the questions and answers was on the highest level and the Institute is to be congratulated on promoting such a successful meeting.

One of the most stimulating contributions to the proceedings was a spirited defence of the pound by a banker, Mr E. P. JAGGARD. Second thoughts have led many, including the Councils of the English and Scottish Institutes of Chartered Accountants, to the conclusion that the ros/cent system would be the most suitable for the United Kingdom to adopt, but Mr JAGGARD believes that recently in other authoritative quarters there has been a reaction in favour of the pound. He bases his own case on the proud international reputation of 'the pound sterling' and thinks that, London being a recognized financial centre, a radical change in currency denominations might upset the confidence which traders all over the world have in its long and highly respected monetary system.

The experiences of a country which did drop the pound in favour of a principal unit of ten shillings were graphically described by another banker, Mr H. R. Reed. Despite initial irritations, the new system appears to be working well but the problems involved in South Africa were mainly domestic. Its pound had not the international significance and prestige of the British pound. It is the possible conflict between these considerations, international and domestic, which the Halsbury Committee will have to weigh up in making its recommendations.

# Short-term Gains - XV

# SHARES IN LAND-OWNING COMPANIES

ERHAPS the most complicated provision in the short-term gains legislation is section 14 of the Finance Act, 1962. It is directed against a possible avoidance device, but there is no doubt that it will hit far more innocent people than guilty ones. The section contemplates a taxpayer who wishes to avoid Case VII tax on a speculation. Instead of acquiring the asset himself, he causes it to be acquired by a company. He then sells the shares in the company. Having held the shares for the statutory six months, he avoids tax. This device is open in the case of assets other than land, but section 14 will counter it only in the case of land. Of course, the easiest avoidance device of all is to wait for the statutory period to elapse; there are no provisions, complicated or otherwise, for countering that.

The most obvious target of section 14 would be the following:

- (1) A. owns all the share capital in X. Ltd, a dormant company.
- (2) He has held them for at least six months and therefore can sell them, in the ordinary way, without Case VII liability.
- (3) A. wishes to buy Blackacre and resell it at a profit within the statutory three years.
- (4) A. procures X. Ltd to buy Blackacre.
- (5) A purchaser for Blackacre is found.
- (6) Within three years after (4) A. sells all the shares in X. Ltd to the person wishing to acquire Blackacre.

In those circumstances, one has to compute the Case VII gain which X. Ltd would have made if it had itself sold Blackacre for a price equal to its market value. Since A. has sold all the issued capital, the whole of that Case VII gain is attributed to A. and he is charged accordingly. If the notional Case VII computation shows a loss, however, A. will not be entitled to relief in respect of it. The application of section 14 by no means depends on A. owning all the share capital; a very small holding may attract liability, but in that case the amount of Case VII profit attributable

to it is scaled down accordingly. Before dealing with the extent to which A. has to be interested, or with the apportionment of the notional Case VII liability it will be convenient to deal with some restrictions on the scope of section 14.

The land in question must of course be 'chargeable assets'. It will be recalled that certain property, such as a factory used by a manufacturing company, is not chargeable assets<sup>1</sup>. The company owning the land must comply with the definition in section 14 (6) of a 'land-owning company', and it must also be under the control of not more than five persons. We will deal with these two requirements separately.

# A land-owning company is one

- (i) not trading as dealer in, or developer, of land (and therefore not already chargeable under Case I on its profit on the sale of land);
- (ii) entitled to land being chargeable assets;
- (iii) with a market value equal to or exceeding onefifth of the net value of all the company's assets.

The original draft of section 14 (6) defined 'net value of all its assets' as 'their value less the value of the debts and liabilities of the company'. To gild the lily, an addition was made at the report stage, when 'net value of a company's assets' was further defined to mean

'the net value they [sic] would have on a sale in the open market of the company's business as a going concern'.

This additional definition contains no provision for the deduction of debts and liabilities, and therefore seems to contradict the earlier definition. 'Market value' is defined in section 16 (1) to mean

'the price which that property might reasonably be expected to fetch on a sale in the open market'.

The land (being 'chargeable assets') must be valued, for the purpose of the 'one-fifth' test, free of any liability charged on it. The value of land (or interests in land) which the company has

<sup>&</sup>lt;sup>1</sup> Finance Act, 1962, section 11 (4); The Accountant, July 21st, 1962.

unconditionally contracted to dispose of, is disregarded. On the other hand, account is taken of the value of land (or interests in land) which the company has unconditionally contracted to acquire. There is ample scope here for manipulation by means of contracts, which are only technically conditional, or unconditional, according to the requirements of the case.

Having established that the company is a landowning company, it remains to ascertain whether it is under the control of not more than five persons. For this, one applies the familiar test applied for surtax direction purposes by section 256 (2) (3) of the Income Tax Act, 1952 (Finance Act, 1962, section 16 (1)).

As indicated above, in the simple example given, it was not necessary for A. to own all the shares in X. Ltd. It would be sufficient if, immediately before he disposed of any shares in X. Ltd, he had a 'substantial interest' in X. Ltd. According to section 14 (7), A. is to be deemed to have a substantial interest in X. Ltd if one-tenth or more in market value of the issued shares is held

- (i) by A.; or
- (ii) partly by A. and partly by persons 'connected with' him.

In the original draft, the fraction was onetwentieth but the Government shied away from this when members and lobbyists pointed out that many a shareholder with only a 5 per cent interest of his own, let alone in company with persons connected with him, may well have not the slightest idea about the company's property deals.

When are persons 'connected with' each other? Elaborate rules are laid down in paragraph 20 of the Ninth Schedule. It begins by declaring that any provision that one person is connected with another is to be taken as meaning that these two persons are connected with each other (paragraph 20 (1)). 'Person' includes both individuals and companies, but only the former, of course, can have spouses and relatives. For the sake of brevity we will ignore this obvious fact. A person, then, is connected with:

- (i) his spouse;
- (ii) his partner;
- (iii) his relative (i.e. brother, sister, ancestor, lineal descendant);

- (iv) the relative of his spouse or partner;
- (v) the spouse of any of the persons in (ii), (iii) and (iv):
- (vi) (in his capacity as trustee)
  - (a) the settlor of the settlement of which he is trustee; and
- (b) any person connected with such settlor; (vii) (in relation to any company)
  - (a) any person(s) with whom he acts together to secure or exercise control of the company;
  - (b) any person acting on the directions of any of the persons in (vii) (a) for that purpose.

'Settlement' and 'settlor' have the same very extended meanings as are given to them by section 403 of the Income Tax Act, 1952.

The above is a résumé of paragraph 20 (1) (2) (3) (4) (7) (8), which applies to individuals and juridical persons, subject, of course, to the fact that only individuals can have spouses or relatives. Paragraph 20 (5) (6) is confined to questions of persons connected with companies, which companies are defined in section 16 (1) to include any body corporate. If a person (individual or not) has control of a company, either alone or together with persons connected with him, then he is connected with the company (paragraph 20 (6)). Subparagraph (5) is confined to the question of whether company A. is connected with company B. They are connected if

- (a) (i) the same person has control of both; or
  - (ii) one person has control of one, and persons connected with him (or he together with those persons) have control of the other;
- (b) (i) the same group of two or more persons has control of each company; or
  - (ii) one group controls company A. and another group controls company B. but both groups could be regarded as the same by treating a member of either group as replaced by a person with whom he is connected (or by treating two or more members in this way).

The absurdity of introducing such complicated provisions into what began effectively as only a voluntary tax hardly needs stressing. It has to be borne in mind that everyone is presumed to know the law. If, by applying these rules, a person is chargeable to Case VII tax, then he is bound to make a return of the Case VII income; even though he may not have the slightest idea of any such liability, and still less of how to compute it

(To be continued.)

# The Use of Acceptance Sampling Techniques in Audit Work

by K. A. SHERWOOD, A.C.A.

VER since the time in the latter half of the nineteenth century when the professional auditor began to appear on the scene, it has been realized that the complete check of bookkeeping entries was not essential to a good audit. With the fairly small trading businesses of that time, it was not unusual for the auditor to check all the entries, especially as in many instances he also had to balance the books. With the passing of the Companies Act, 1900 (under which it became compulsory for companies to have auditors), and the growth of commerce and industry, the auditor found the task of testing every entry in the books well-nigh impossible and devised various rule-of-thumb methods for cutting out unnecessary tests of details. At first, work on personal ledgers was cut to a minimum, especially where accurate control accounts were kept. In more recent years, other tests have been reduced to more manageable proportions. Nowadays, the auditor rarely considers it necessary to check every entry in a client's books and records. The considerable cost of an exhaustive test would 'normally far outweigh the risk of material errors being overlooked.

But how far should the auditor reduce his tests? What are the rule-of-thumb methods at present in use? Perhaps some or all of the following points may be considered:

- A. The number of entries that could be checked (termed in this article 'population').
- B. The time necessary to check each entry as compared with the risk of accepting as correct a population which exceeds a pre-specified error level or of rejecting a substantially satisfactory population.
- C. The relative importance of individual errors that might exist in the accounts under audit as compared with the degree of error which the auditor is willing to accept as reasonable without the accounts needing amendment.
- D. The existence or otherwise of adequate internal control.

In practice, however, such a decision is more usually based on experience – the only effective criterion of the rule-of-thumb method. As a result, in any given circumstances there are

differences of opinion between individual practitioners, partly due to the difficulty of interpreting the above factors so as to give a practical basis for the extent of each test. Acceptance sampling enables these difficulties to be overcome.

# **Acceptance Sampling**

Three of the four factors outlined above are capable of mathematical interpretation thus enabling the statistical interpretation of the results of audit tests. The fourth factor – internal control – can be assessed broadly from an internal control questionnaire. Further attention will be paid to this later, under 'Inspection levels'.

Meanwhile let us examine the three other factors with a view to determining the mathematical basis for an audit test.

A. The size of the population: It is a statistical fact (which the writer will not attempt to prove here) that as the number of items in a population increases, the size of an adequate sample does not increase in proportion. For very small populations it will probably be necessary to check a large proportion of the items, whereas a population of 10,000 items may only require a 2-3 per cent test. Therefore, before choosing a sample it is necessary to know the approximate size of the total population.

At this point, further mention should be made of the two technical terms 'population' and 'item':

- (i) A 'population' may be defined as a collection of homogeneous items prepared by one person or by a number of persons in a similar manner and extending over the period under review. (For the internal auditor this might be a single day or week—the external auditor would normally cover a full year.) Where there are subsidiary companies or branches, the population might include several companies or branches if the test of homogeneity can be satisfactorily applied, e.g. a highly centralized business.
- (ii) An 'item' is the individual unit with which the auditor is concerned, e.g. extended values on stock sheets, daily banking in a cash receipts book. Theoretically each transaction or its resulting value or liability forms the item of

population, but the auditor must decide the most appropriate item for his test. For example, a punched-card listing of ledger balances usually shows in detail all invoices and credit notes outstanding, but the true 'item' in the population is the net balance outstanding rather than the individual entries on the ledger card

B. The length of time necessary to check each item and the specified risk factor in sampling: The auditor here compares cost as against risk, a factor which varies from client to client as well as between individual tests.

There would seem to be no valid reason for the auditor to restrict his test because an item is difficult to check; on the other hand, an easy test ought not to be extended simply because it is straightforward. The risk factor should be predetermined by the auditor; it is normally expressed as two percentages:

- (a) the risk of accepting as satisfactory a population which is unsatisfactory, and
- (b) the risk of rejecting as unsatisfactory a population which is satisfactory.

The latter might seem of little interest as most auditors would undertake further testing before qualifying their report, but its existence does prevent the auditor jumping too quickly to wrong conclusions.

- C. The relative importance of errors discovered and the acceptable error risk:

  (i) The auditor has to decide the relative importance of each error he discovers. At present the auditor assumes (possibly incorrectly) that the rate of error in the items tested equals that in the whole population; if the rate of error is excessive he extends his test or on occasion requests the client to re-check until he is either satisfied that sufficient items have been re-checked (and corrected) or that he must qualify his report. Often the auditor does not even calculate the error rate but makes a subjective judgment on the errors noted by his clerks.
- (ii) For the purposes of acceptance sampling the auditor must specify his acceptable error rate in advance; if, however, certain items will have more importance than others in a population he may use different error rates for different parts of the population. For example, in vouching purchase invoices he might use the following acceptable error rates:

Under £1,000 - 2 per cent Over £1,000 - 1 per cent Capital items - Nil

Each group of purchase invoices will then form a

different population and a different test, although in practice such tests will be combined.

- (iii) When the auditor specifies a particular error rate he should ask himself whether he is thinking in terms of 'items', e.g. 2 per cent of individual debtors in error; or in terms of value, e.g. 2 per cent of errors in the value of debtors. Both concepts are important but only the first can be used easily in acceptance sampling; the second requires the application of 'stratification', a principle well known in the profession (although not by that name) and summed up by the audit instruction 'Test all items over f(x)'. It goes without saving that errors in small items must be numerous before materially affecting the accounts; an error in only one large item may seriously affect the situation. The proper application of stratification to acceptance sampling has hardly reached the experimental stage and much work remains to be done.
- (iv) The auditor must define precisely what he means by error and set down on paper the main kinds of error possible in each individual test. For example, the testing of additions of an analysed purchase day book can give rise to only one error, namely, wrong additions; but in testing the carry-forwards the auditor may discover that the totals of two analysis columns have been switched quite a different sort of error but often discovered at the same time. An error of analysis on entry into a day book may be a clerical error in entering a pre-analysed invoice or an actual error in analysing the invoice.
- (v) When deciding on an acceptable rate of error, the auditor should remember that he also makes errors. He can, of course, guard against such errors by giving comprehensive instructions and employing sufficiently experienced staff; nevertheless, errors may still be overlooked and with this in mind the auditor may specify a lower acceptable error rate.

# Sampling Plans

Once the auditor has specified the population size, the degree of risk he will accept and the error rate, he can proceed to choose a 'sampling plan' by which to carry out his audit test, using either one of a number of published tables¹ or direct calculation. First, however, he must decide whether to use: single sampling; double sampling; multiple sampling; sequential sampling.

<sup>&</sup>lt;sup>1</sup> Sampling Procedures and Tables for Inspection by Attributes, Department of Defence, Washington, 1950; Sampling Inspection Tables, by Dodge and Romig, John Wiley & Sons, London and New York, 1944.

# Single sampling

From one of the published tables a sample size and acceptance number for the specified risk and error rates and population are obtained; the acceptance number is the highest number of errors which can be accepted without rejecting the sample level. If the errors in the sample exceed the acceptance number, the population must be rejected.

# Double sampling

In double sampling, the tables give in addition to a sample size and acceptance number a rejection number (the rejection number in single sampling is one above the acceptance number). If the number of errors equals or is less than the acceptance number, the population is accepted on the first sample; if the number of errors equals or exceeds the rejection number, the population is rejected on the first sample; if the number of errors is higher than the acceptance number but less than the rejection number a second sample is drawn with a new acceptance and rejection number which this time are sequential as in single sampling.

# Multiple Sampling

In multiple sampling, a third, fourth or even more samples can be drawn by a similar method to that outlined under double sampling.

# Sequential Sampling

This may be most easily regarded as multiple sampling with each sample consisting of a single item, i.e. after testing each item in the population a decision is taken as to whether to accept or reject the population. Such a decision cannot be taken, of course, until a minimum number of items has been examined.

#### Advantages and disadvantages

The main advantage of double, multiple and sequential sampling over single sampling is the smaller initial sample size; the disadvantage is that a far higher number of items may need to be examined before the population is finally accepted or rejected. For most auditing applications, double sampling is recommended although in certain work the drawing of a single sample may be the most practical method to follow, e.g. debtor confirmation. The use of multiple and sequential sampling in audit work gives rise to practical difficulties although where there is extensive testing necessary of individual items, it could be of definite value.

# **Inspection Levels**

Where good internal control exists or the risk of non-discovery of errors is not so important, the auditor may specify a greater risk of accepting an unsatisfactory population; this is known as a reduced inspection level and requires a relatively smaller sample. At the same time, he will reduce his acceptable error rate; as soon as one error is discovered, however, the ordinary level of

inspection must be reverted to.

On the other hand, where there is very poor internal control or it is important that the risk of non-discovery of errors should be reduced to a minimum, a tightened inspection level is specified with a relatively higher sample. Again if the error rate is low or non-existent, an ordinary inspection level can be reintroduced with the possibility of reversion to the tightened inspection level if, for example, the specified error rate is ever exceeded.

The proper use of inspection levels is a highly skilled job and variations in the inspection level should not be made without due regard to the implications.

# Selection of Random Sample

Throughout this article, use has been made of the word 'sample' without further definition. In order to be able to specify his risks, the auditor must draw probability samples, the type which we have discussed being 'unrestricted random samples'; these are of necessity random and therefore completely unbiased in every respect. One method of selecting such a sample is by the use of random number tables although these involve a lengthy pre-listing of numbers before the sample can be easily selected from a client's records. Alternatively, only the first item in the sample is selected at random, subsequent items being at a constant frequency from the previous number (e.g. 5, 12, 19, 26, etc.); the frequency is so selected that the sample is drawn from the whole population and not just a small section of it. It may be simply calculated by dividing the estimated population by the sample size.

The rules of sample selection can be applied with value to ordinary test checking procedures even if the technicalities of acceptance sampling are not used. The rules may be briefly summarized as follows:

- (1) The test should incorporate a review of the whole year (or other period under review) rather than be confined to a single week or
- (2) Where the minimum period for a test is one

month, each month should have an equal chance of selection; tests for 'window-dressing', 'cutoffs' and other year-end adjustments should be separated from the test of routine entries so as to eliminate any bias towards the last month.

(3) As far as possible 'items' for testing should be specified rather than periods, e.g. petty cash voucher entries rather than one week in the petty cash book; the extent of the test should always be given, e.g. 'Test 150 petty cash youchers chosen at random'.

#### Conclusion

This article has attempted to explain the application of acceptance sampling to routine auditing. The introduction of such techniques is a sizeable operation and should be spread over a period of several months. As a preliminary stage, information on the population and sample sizes and the number of errors found should be obtained on audit files to form a basis for the necessary decisions on error rates and risk factors.

Secondly, a sampling table (which will specify only one risk factor) should be chosen or sample sizes directly calculated. This may be a lengthy job requiring concentrated study. Finally, audit staff will require instruction in the basic principles of acceptance sampling and the additional information required on audit working papers.

Acceptance sampling will not necessarily reduce audit costs but it will avoid unprofitable work. It will enable the auditor to satisfy himself that sufficient work has been done to prevent any possible charge of negligence and to assess the accuracy of the detailed work behind a set of accounts. If used intelligently it will prove to be the auditor's servant rather than his master, an aid of immeasurable value in the routine work of an audit.

# Investment in Stocks and Shares - I

by A. G. TOUCHE, F.C.A.

# Types of Investor

INVESTORS in stocks and shares can be broadly divided according to their tax status, and also according to whether there is a sharp distinction between income and capital. This paper will consider, with emphasis on the statistical approach, the viewpoints of the gross fund ('o per cent taxpayer') such as a pension fund or charity, the standard rate payer ('40 per cent taxpayer') such as most individual investors, and the highest-taxpayer ('90 per cent taxpayer'). Companies, though paying profits tax, will be included in the middle group of 40 per cent taxpayers. For simplicity approximate rates of tax will be used.

2. We shall consider the attitude of the pension fund and the individual, where capital and income belong to the same person, and the attitude of the trustee of a trust where the beneficiaries interested in the income are distinct from those who will eventually have the capital of the fund. To the pension fund and the individual there is little difference between capital and net income, particularly where the income is reinvested; they are, as investors, solely concerned with increasing their wealth, regardless of whether the increase takes the form of net income or capital. Hence the purchase of national savings certificates and endowment assurance, which produce no income but do produce increase of capital, even by individuals who are not liable to tax.

# Types of Investment

3. In its widest sense 'investment' has many meanings, ranging from the purchase of a factory to

speculating on the results of association football matches. Here we are concerned only with long-term stock exchange investments, which are primarily divisible into 'equities' and 'money stocks'.

4. Equities, otherwise ordinary shares or common stocks, represent the ownership of the assets and profits of companies after all prior claims have been satisfied. Often the assets are 'real' (as opposed to 'money') assets, such as factories, plant, stock-intrade or goodwill; hence equities tend to represent real values as opposed to money values, and provide some protection against a decline in the purchasing power of money.

5. Money stocks are claims expressed as sums of money, regardless of its purchasing power. Stocks that must be paid off at a fixed date, or at any time between two fixed dates, are known as 'redeemable'.

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3m (w Others may be perpetual or repayable after a fixed date at the borrower's option; the former are known as 'irredeemable' and the latter are in practice often equivalent to irredeemable. Until repayment the holder normally receives interest.

# **Money Stocks**

- 6. Two and a half per cent Consols is the classic irredeemable money stock. At a price of  $£38\frac{1}{2}$  the buyer of £100 nominal of stock buys a perpetual income of £2 10s each year; the yield on cost is  $6\frac{1}{2}$  per cent. This yield may seem high, but irredeemable stocks are at present unpopular because of fears of inflation. Perhaps we can regard 4 per cent as a fair rate of interest and the extra  $2\frac{1}{2}$  per cent as being some offset against inflation, or amortization of purchasing power.
- 7. The o per cent taxpayer buying  $2\frac{1}{2}$  per cent Consols at  $38\frac{1}{2}$  nets  $6\frac{1}{2}$  per cent from his investment, the 40 per cent taxpayer 3.9 per cent, and the 90 per cent taxpayer 0.7 per cent. When they sell they will get back their capital, or make a capital profit or loss, depending on the then price of  $2\frac{1}{2}$  per cent Consols.
- 8. Redeemable money stocks have varying lengths of life till redemption, and varying coupon rates. 'Coupon' means rate of interest on nominal capital. With an irredeemable stock the gross yield is:

the coupon rate 
$$\times \frac{nominal\ value}{price}$$

For a redeemable stock this calculation gives the 'flat' or 'running' yield (i.e. the yield received each year). But this is not the complete yield because, where the present price differs from the amount payable on redemption, the flat yield makes no allowance for the capital profit or loss on redemption. Other bases on which the yield can be calculated are:

- (a) Gross redemption yield. This is the rate of interest at which the sum payable on redemption and all future years' gross income must be discounted to give a present value equalling the market price. If the flat yield is 3 per cent and the gross redemption yield 5 per cent, the gross redemption yield postulates that the 2 per cent notionally saved each year is reinvested with compound interest at 5 per cent. This yield is the significant yield to the o per cent taxpayer, except where the net United Kingdom rate of a redeemable preference share is less than the standard race.
- (b) Net redemption yield. This is the rate of interest at which the sum payable on redemption and all future years' net income (after deducting tax at the investor's rate) must be discounted to give a present value equalling the market price.
- (c) Grossed-up net redemption yield. This is the net redemption yield grossed-up at the rate of tax applicable to the particular investor. Whilst

- the annual interest received is liable to tax, the capital profit (or loss) realized on redemption is tax-free (or disallowed); unlike the gross redemption yield, the grossed-up net redemption yield grosses up at the investor's tax rate the capital profit (or loss) on redemption. The grossed-up net redemption yield is useful for comparison with the gross yield from irredeemable stocks; however, with its huge yields this concept is unrealistic for the 90 per cent taxpayer, and for him the net redemption yield is more appropriate.
- (d) Where the capital eventually goes to a remainderman and the income meanwhile goes to a life-tenant, capital and income should be considered separately. From the life-tenant's viewpoint the flat yield is relevant; the compound rate of interest at which the capital will grow until redemption is what concerns the remainderman.
- 9. The tax status both of the investor and of the source of income materially affects yields. The o per cent taxpayer cannot recover more than the net United Kingdom rate of income tax. The profits-taxpayer must pay profits tax on chargeable income out of his net income after income tax; the cost of profits tax in terms of gross and net running yield is:

$$\frac{20s}{20s - standard\ rate} \times rate\ of\ profits\ tax$$

which gives a cost of 25 per cent where income tax is 40 per cent and profits tax 15 per cent. Appendix 1 shows various yields for different taxpayers from representative money stocks.

#### Inflation

- 10. Unfortunately the investor must take into account the future rate of inflation and judge its effect on his investments. A long-term rate of interest of  $6\frac{1}{2}$  per cent may allow  $2\frac{1}{2}$  per cent for annual inflation; if  $2\frac{1}{2}$  per cent a year is in fact the rate at which money will depreciate in future, the o per cent taxpayer is covered and gets 4 per cent effective interest. But the 90 per cent taxpayer will get no effective interest, after allowing for inflation, on a money stock unless the grossed-up net redemption yield exceeds 25 per cent.
- 11. After Hitler's war companies and individuals found themselves with liquid resources (money, gratuities, savings certificates and short-term Government stock) that they had earned during the war but had not been able to spend because of the shortage of goods. Housing, clothes, cars, machinery, etc., needed renewing; capacity was not available to meet the demand; and rationing was necessary to restrain prices and to permit an equitable distribution among the whole community of such goods as were available. As supply came more nearly into balance with demand, rationing could be lifted. But the post-war

demand inflation, or too much money chasing too few goods, inevitably raised prices: there was a sellers' market and increased costs could easily be passed on to the consumer.

- 12. In 1962 we find ourselves in a very different situation. The pent-up demands that could not be satisfied during the war or for years after have now been met; there is unused capacity in industry; and we have a buyers' market. The ratio of money to the national income has materially declined: the economy is no longer liquid but on a tight rein. But we have a relentless increase in the cost of labour, and consequently in the cost of goods and more especially of services. Cost inflation, slower but persistent, has taken the place of demand inflation.
- 13. The price of labour responds to economic circumstances in the same way as that of any other commodity. If labour is in short supply, its price goes up and it is hoarded. In a free economy, in peacetime, rationing of labour and control of its price are unacceptable; yet it is difficult to see how an incomes policy can be effective without them. The degree of unemployment necessary to ensure a steady price for labour is politically impossible even if it were economically desirable, which many would dispute. Furthermore, even were there a sizeable margin of unused labour, the cost of labour in use might well still rise, because of the power of the trade unions: a monopoly controlling a vital commodity can increase its price, even where there is spare capacity, provided that all the capacity is under its control. Were the home market thrown open to competition from abroad, there might be restraint on cost inflation if the rate of inflation is less overseas than at home; but if labour is also in short supply abroad, economic forces will have a similar effect there.
- 14. Obstacles may be placed in the way of cost inflation, but they can only delay, not stop, costs from rising. Natural forces will insist that in the long run the price of labour will rise. If we divide all work very inexactly into two types, that where productivity does increase ('industry') and that where it does not ('nurvices'), we can see what chance the obstacles will i and This division is inexact, because there is in fact scope for improved productivity in many services. If the nation's production of goods and services in relation to the number of people consuming them rises by 2½ per cent, average incomes can rise by 23 per cent without affecting prices. But if there is any pay rise for those in services, the cost of services, as here defined, must rise; however, there will be no overall rise in prices if an adequate part of the increased productivity of industry is applied in reduction of the selling price of goods. This measure of restraint seems to be a pious hope: industry will not be keen to reduce prices; labour in industry will want a greater share in increased productivity than overall price stability can permit; on grounds of comparability labour producing services will want

- the same rise as is obtained in industry; the rise in the cost of services, inadequately offset by reduced prices for the products of industry, will provoke further claims because the cost of living has risen; because of the general shortage of labour, employers will bid up its cost, a phenomenon known as 'wage drift'.
- 15. The obstacles to cost inflation must be placed by the State, whose concern is to see that the balance of overseas payments is satisfactory. Provided others inflate no slower than we do, the State is happy and sterling is safe from devaluation. The State, however, as the biggest debtor, has a vested interest in inflation: it receives more from taxes and can grant tax reliefs, costing nothing in real terms, and the burden of the national debt in real terms constantly diminishes. But the balance of payments, and the expense of a vast payroll for services, are some check on the State's interest in inflation. Labour on the other hand is not concerned with the balance of payments or devaluations: pay rises in excess of rises in productivity increase labour's share of the national cake. Labour naturally wants the largest possible share of the largest possible cake, and is not interested in the money units in which the cake is quantified - the decimal point can be moved one place to the left from time to time when the currency unit gets too light.
- 16. In short, the investor can reasonably expect cost inflation to continue. He must decide what rate to allow in his calculations; and the rate he decides on must be covered by his net income after tax or by expected appreciation in the money value of his capital. If creeping inflation, sometimes called reasonable stability, is here to stay, the long-term rate of interest (i.e. pure interest plus inflation amortization) will probably remain at an apparently high level:
- 17. We must now consider the effect of these two types of inflation on equities. During the period of the sellers' market, increases in costs could be passed on to the consumer; companies had no difficulty in maintaining comfortable profit margins; and unreal profits were shown by accounts, which included stock profits and excluded depreciation on the difference between the current and historic values of fixed assets. But now in a buyers' market these factors no longer operate, except the inadequas depreciation charge: there is intense compression and overcapacity; it is difficult to raise prices; and costs rise relentlessly and squeeze profit margins. However, there must be some minimum long-term profit margin if companies are to stay in business; many companies may be near that level now.
- 18. Perhaps the outlook is now one of almost profitless prosperity. That does not sound too cheerful for equities, but on the other hand their traditional risk has probably been eliminated: although the particular equity can still go bad, the risk of equities in general being massacred by a major slump is now

very small. The State must now maintain full employment and, in the event of a slump, would spend money of its own creation to provide jobs. Its willingness to use the antidote to slump of more State spending is a great comfort to the investor in equities. And social changes since before the war have reduced the chance of the antidote's being needed: a great proportion of present demand – the State's spending of much of the national income, and the greatly increased purchasing power of the masses – is unlikely to be reduced. Although companies may not be very prosperous, they must be prosperous enough to continue giving employment.

# Yardsticks for Equities in General

- 19. Viewing the equity market, the investor must make a number of decisions:
  - (a) Whether equities in general are high or low in price in the short-term. This is a very difficult question, because prices are governed by what people do, not by the careful reasoning of one particular investor. At a time when the outlook for profits is gloomy, investors may buy in anticipation of the gloom dispersing; it is no use being shrewd enough to wait for a ray of hope to appear if no one else is waiting.
  - (b) Whether equities in general are high or low in price taking a long-term view of their prospects, regardless of what the short-term prospect for their prices might be. If prices on a long-term view seem reasonable, it is probably not worth worrying much about the short-term view.
  - (c) Whether a particular equity is reasonably priced in relation to equities generally.

20. The Financial Times index of industrial ordinary shares is the most widely used measure of the level of equities generally. The dividend yield from this index can be expressed as a percentage of the yield from 2½ per cent Consols, and the consequent figure was once considered to be a confidence indicator – an indicator, that is, of confidence in equities. The indicator was an inverse measure of confidence in equities: the greater the confidence, the lower the figure. Until 1959 this indicator was always more than one hundred, meaning that the yield from The Financial Times index was greater than that from 23 per cent Consols; the difference in the yields was known as the 'yield gap'. When the indicator came down to near one hundred a warning was sounded that equities were getting too dear; the indicator did in practice work. The yield gap, however, has since 1959 been a negative figure; and therefore the indicaror is less than one hundred and The Financial Times index yields less than 2½ per cent Consols. The gap is now called the 'reverse yield gap' suggesting that it is a temporary phenomenon, but with the loss of confidence in money the reverse yield gap is likely to persist. What was formerly called the yield gap should now be called the reverse yield gap, and vice versa. The present yield gap can be justified negatively because money is an unsound store of value, or positively because of expected growth in dividends. The yield gap will always be a factor of great importance to the investor, but he must not be dogmatic as to the conclusions he draws from it.

21. Probably the most significant indicator of danger to equity prices today is the ratio of the number of unemployed to unfilled vacancies. When the labour market is getting very tight, the State is obliged to impose restrictions if inflation is to be contained; these may have an adverse effect on equity prices. The investor, however, needs great restraint not to buy equities at a time when there is a highly inflationary atmosphere; but there is always the risk that the State will not act to damp inflation, with sad results for those whose investments are linked to money.

# Yardsticks for Individual Shares

22. The first yardstick used to assess an individual share is the dividend yield, which is calculated in the same way as the flat yield from a money stock. A high yield indicates an income stock, from which slow or no growth is expected; a low yield indicates a growth stock or a well-covered dividend, from which increasing dividends are expected. The yield from a particular share can be expressed as a ratio of the yield from an equity index (e.g. The Financial Times index); this yield ratio is an inverse measure of the esteem in which the share is held, and of the expectation of growth in dividends in excess of that from the index. Changes in the ratio may come from a change in the proportion of profits distributed as well as from a change in the basic circumstances of the share; but changes in the yield ratio, over both long and short periods, and both of individual companies and of whole industries, are of great interest.

23. The earnings yield, being the dividend yield multiplied by the number of times the dividend is covered, is even more important than the dividend yield. It, too, can be expressed as a ratio of the earnings yield of an equity index; but this ratio is less reliable than the dividend yield ratio, because earnings fluctuate from year to year more violently than dividends. If earnings retained are used by a company profitably enough, the increased capital employed will generate more profits (and probably more dividends) in the future; so for the long-term tax-paying investor an earnings yield higher than the flat yield from 21/2 per cent Consols is prima facie evidence that the share is a better buy than 2½ per cent Consols. In the United States earnings yields are expressed as price/ earnings ratios. What we call a 5 per cent earnings yield is called a twenty times P/E ratio, though it must be remembered that we mean earnings before income tax whereas they mean earnings after all company taxation. We sometimes use P/E ratios instead of earnings yields: goodwill may be expressed as valued at four years' earnings instead of on an

earnings yield basis of 25 per cent. Earnings yields are more readily comparable with dividend yields than P/E ratios and are therefore more useful. On the other hand P/E ratios appear to be a more sensitive indicator: for example, the difference between P/E ratios of fifty and eighty seems greater than that between earnings yields of 2 per cent and 1½ per cent.

24. If it is thought that creeping inflation and, more optimistically, real growth will cause profits to rise gradually in the long run – and the long-term trend of profits should follow what appears to be the inevitable trend of wages – gearing, sometimes called leverage, is highly desirable. The greater the proportion of profits required to service prior charges (preference capital and long-term borrowings), the greater is the gearing. In the last decade the equity of many investment trust companies derived great benefit from gearing, but as a result we now often find little gearing left: the spring is unwound. A simple illustration will show the benefit of gearing: if

50 per cent of a company's profit is needed to service the prior charges, 50 per cent is left for the equity; if the profit rises by 50 per cent all that increase belongs to the equity, whose profit has thereby doubled. If debentures cost 7 per cent interest a year and a company can earn 12 per cent on new capital employed, the equity can get a turn of 5 per cent by the employment of more debenture money. Furthermore, though profits may rise, debenture interest remains fixed; issuing more equity and paying increasing dividends is equivalent to raising money at rising rates of interest. The maximum gearing consistent with prudence is to the equity's advantage, provided that earnings trend upwards.

25. Gearing is usually measured by means of priority percentages. The net profit, after tax but before charging net debenture interest, is called one hundred; and the net debenture interest, net preference dividend, and net ordinary dividend are converted into percentages of that net profit. The

#### Appendix I

# YIELDS FROM VARIOUS VIEWPOINTS

(Note: Tax rates and prices are illustrative	only.)	3 per cent tax reserve certificates (assumed used to pay tax) per cent	2½ per cent Consols at 38½ per cent	21 per cent Savings Bonds 1964–67 at 85 (5 years before redemption) per cent	2½ per cent Australia 197075 at 65 (13 years before redemption) per cent	5½ per cent Funding 1982–84 at 90 (22 years before redemption) per cent	8 per cent preference share at par (franked income: net U.K. rate, nil) per cent
Flat yield		-	. 6.5	2.9	3.8	6-1	4.8
Gross redemption yield	••	-		6.0	6.5	6-4	_
40 per cent taxpayer						·	
Flat yield (net)		3∙0	3.9	1.7	2.3	3.7	4.8
Gross equivalent to flat yield		5∙0	6∙5	2.9	3.8	6∙1	8-0
Gross redemption yield		Acres .	-	6.0	6-5	6.4	_
Net redemption yield			<b>→</b>	4-8	5-3	4.0	
Grossed up net redemption yield		- Marine	-	8.0	8-8	6-6	
Company liable to profits tax (15 per	r cent)						
and Income tax (40 per cent)							
Flat yield (net)	.**	3∙0	2.9	1-3	1.7	2.7	4.8
Gross redemption yield	4 *	-	-	6-0	6-5	6-4	
Net redemption yield	••		_	4.5	4.8	3.1	
*Yield comparable with profit before i				•			
tax and profits tax (i.e. comparable	e with						
unfranked income, e.g. trading pro		6-7	6∙5	10-0	10.6	6.9	10-7
*Yield comparable with profit after	profits						
tax but before income tax (i.e. co	ompar-						
able with franked income)	••	5-0	4-9	7.5	7-9	5-2	8-0
90 per cent taxpayer						~	
Flat yield (net)		3.0	0.7	0-3	0.4	0.6	0-8
Gross equivalent to flat yield	• •	30-0	6.5	2-9	3-8	6-1	8.0
Gross redemption yield			_	. 6.0	6-5	6-4	
Net redemption yield	••	******	_	3⋅6	3.7	1-1	
Grossed up net redemption yield	••		_	35.5	36-5	10-6	
Life-tenant							
Flat yield (gross)	••		6.5	2.9	3.8	6-1	8.0
Remainderman				•			
Compound capital gain	••		Not ascertainable until sold	3.3	3.4	0.5	Not ascertainable until sold
*Yield to redemotion where applicable					₩.		

<sup>\*</sup>Yield to redemption where applicable

hundred is then treated as being divided into slices, the debenture interest taking say nil to eight, the preference dividend say eight to twenty, the ordinary dividend say twenty to sixty, and retentions sixty to one hundred. The ordinary dividend and retentions both take 40 per cent, so the dividend takes half the earnings available for the equity. This method is not precise, because it does not allow correctly for the effect of profits tax: debenture interest is better covered than it appears to be. Nor does it show the effect of concealed gearing: a company that rents its premises has a prior charge just as does the company that owns them but finances them by issuing debentures. The nature of some businesses, where the break-even point is high, may cause profits to be volatile, and high gearing would then be dangerous.

26. Sales and profit margins (net profit before tax as a percentage of sales) are of great interest, but often unobtainable. The profit margin obtained over a number of years gives an indication of whether increased costs can be absorbed; a high profit margin in a competitive trade is a sign of efficiency. The trend of sales may indicate whether the company is increasing its share of the market.

27. Net profit before tax expressed as a percentage of capital employed is an essential statistic. The effect of research and development and of the delay before new fixed assets become profitable must be considered. A company that retains much of its profit, but merely maintains its earnings per share, is obtaining a declining return on capital employed. It is probably better to consider the return on total capital employed (i.e. issued capital, reserves, and long-term borrowings) than on equity capital employed (i.e. issued ordinary capital and reserves); the degree and effect of gearing will be shown by the priority percentage and by the long-term trend in earnings per share. It will be realized that accounts based on historical cost may give rise to misleading conclusions; investors therefore welcome a revaluation of fixed assets and the consequently increased depreciation charge.

The investor wants from his equity the maximum long-term dividends; earnings retained should, if profitably employed, give rise to growing dividends, so earnings in this event are as valuable as dividends. From the ordinary shareholder's viewpoint, all decisions by directors should be judged according to their effect on the long-term earnings per share (whether expressed as a percentage of nominal value or as so much money per share) as adjusted for capitalization and rights issues. Size, diversification, empire-building and mergers are of no value to the investor if they do not increase longterm earnings per share - this must be slightly qualified, for short-term reduction in earnings per share may be justified by improved quality (i.e. safety and growth) of earnings. To see the growth of earnings (and dividends) in the past, it is necessary to make various adjustments to the figures that come from the published accounts:

(a) Capitalization issues require the earnings per share in previous years to be multiplied by

number of shares outstanding before capitalization issue number of shares outstanding after capitalization issue

This formula explains the principle, but in practice a more direct approach is feasible: for example, if the issue is one for five, the previous years' earnings must be multiplied by §. This is the same as multiplying by

# price after capitalization equivalent price before

which is similar to the adjustment to be made for rights issues.

b) Rights issues of ordinary shares usually contain an element of so-called bonus. This means that the ex-rights price of the existing shares is greater than the issue price of the new shares, which will therefore go to a premium over the issue price. We are sometimes told that a rights issue is 'on generous terms', meaning that the new shares will go to a premium and the issue will therefore be taken up. It is as untrue to say that a rights issue gives anything to shareholders as it is to say that a capitalization issue gives them anything, apart from possibly increased marketability of their shares. Rights issues and capitalization issues may coincide with an effective increase in the dividend, but that is a different point. A rights issue merely relieves the shareholders of a sum of money; if the issue price is low, value in excess of the issue price is transferred to the new shares from the old, just as capitalization shares have value solely at the expense of the old shares. 'The truth of this can be easily shown. The market price of X. Ltd's £1 ordinary shares is £5; X. Ltd wants to raise as much new money as it has ordinary capital in issue, i.e. £1 per share. It is immaterial to the shareholder whether X. Ltd has a one for five issue at £5 per share, a two for five issue at 50s, or (a splendid bargain to the ignorant) a one for one issue at 20s. In all examples the shareholder who takes up his rights puts up fix for each share held and has the same proportionate stake in the company as he had before. Earnings before years in which rights issues are made must be multiplied by

# ex rights price<sup>1</sup> equivalent cum rights price

to eliminate the bonus element in rights issues; the effect of this adjustment is to show how a

<sup>1</sup> i.e. The price at the end of the first day of dealings in the new shares so that the impact of the rights issue is reflected in the price.

shareholder fares who never puts up more money but always sells enough rights to take up the balance. The following examples, based on the alternatives previously mentioned, show the calculation of equivalent cum rights prices from given ex rights prices:

Ex rights price Less: Issue price	1 for 5 at £5 100s 100s	2 for 5 at 50s 85s 9d 50s od	for 1 at 20s 60s 20s
Premium over issue price	Nil	35s 9d	408
Cost of premium to each old share (i.e. value of rights in each cum rights share) (½×r		(%×35s 9d) 14s 3d 85s 9d	( <sup>1</sup> / <sub>1</sub> ×40s) 40s
Ex rights price	2001	85s 9d	l 6os
Equivalent cum rights		<del></del>	
price	1002	100s od	1008
=			

(c) Mergers and take-overs paid for by the issue of shares cause grave distortion to the record. An extreme example will illustrate this: a merger on the last day of a company's fiscal year causes a doubling of the issued equity; post-acquisition profits will be nil, and the apparent earnings per share will be halved. This can be adjusted by calculating the earnings on the average number of shares outstanding during the year. The past record should perhaps be adjusted to incorporate the results for past years of the new acquisition.

29. The adjustment explained in 28 (b) raises the interesting question of the timing, quantity, and desirability of rights issues by companies. We have seen that, if a company wants to raise a given amount of new equity capital, it is immaterial, apart from the question of underwriting, whether few shares are issued at near the market price (possibly followed by a capitalization of the resulting share premium account) or more shares are issued at a lesser price. To study the effect of a rights issue, let us assume the issue of few shares at market price: if the market price is high (after absorbing the news of the rights issue), fewer shares need be issued to raise the required sum, so there is less dilution of earnings per share - the vital consideration - than when the market price is low. If too much new money is raised at a time, the supply of shares will for a time be excessive owing to the inability of some holders to take up their rights; so money to be raised should not be too great in relation to the market capitalization of the existing equity. And as to the desirability of rights issues, they are rarely desirable if the company has inadequate gearing and if the shares are valued on an earnings yield basis greater than the interest (after profits tax relief) that would be payable on a debenture.

30. It is regrettable that the calculations outlined above are not published by companies with the usual tables of past years' figures. Instead statistical services, brokers and other analysts do the work with greater or lesser degrees of accuracy, but certainly

with much duplication. Wasted skill would be saved and greatly improved investment analysis would be possible if companies were obliged to do for their shareholders all the calculations necessary for a satisfactory study of their investment. The calculations should be as uniform as possible; this could be achieved by a central semi-official body issuing detailed requirements, answering queries, and thereby building up a code of practice. Perhaps the auditors should report to the central body that they have verified that the company's published statistics comply with the current requirements.

- 31. Apart from the arithmetical factors and the marketability of the shares, the investor in equities must of course consider the more obvious points, which can be summarized as the quality, or prospects, of a company's earnings:
  - (a) The trade, the state of competition, the likelihood of over-capacity, the ease with which new entrants can enter the trade, the effect of the Common Market, etc.
  - (b) The political risks, such as nationalization, subsidizing of foreign competitors by governments, price control, taxation, etc.
  - (c) The country of operation: many of the countries whose need for capital is greatest have, by word or deed, rendered themselves unfit for investment. The effect of any double tax relief must be considered.
  - (d) Management: general impressions may be obtained from many sources, apart from the conclusions to be drawn from financial results. The cult of a chairman's personality, combined with constant repetition of his photograph, rarely inspires confidence in the management of a company, but perhaps the effect varies with each investor's temperament.
- 32. Interesting attempts are sometimes made to project future years' earnings per share. If sales figures are published, estimates are made of future sales and of the future profit margin. Estimates are then made of the additional capital required to support these sales; after consideration of the present liquid position, of the cash flow from retentions and depreciation, and of possible issues of prior charges, future rights issues are projected. The information is then available for calculating the future estimated earnings per present share. When sales figures are not available, the projections can be made on the basis of estimated future capital employed and the return from it. Although these projections may not be fulfilled, they are more valuable than projections based solely on earnings per share achieved in a sellers' market that no longer exists.

(To be concluded.)

# Weekly Notes

#### RETIREMENT OF MR ALAN S. MACIVER

AS previously noted in these columns, Mr Alan Squarey MacIver, C.B.E., M.C., B.A., Secretary of The Institute of Chartered Accountants in England



Mr Alan S. MacIver

and Wales since 1950 and previously Deputy Secretary and Assistant Secretary since 1935 retires at the end of this month.

The youngest of a family of fourteen, Mr MacIver was educated Shrewsbury Christ Church, and rowed in both his school VIII and in the Christ Church VIII. spending only a year at Church, Christ Mr MacIver was commissioned into the Fourth

Battalion, Lancashire Fusiliers (special reserve) in August 1914, being posted to France in May 1915. There he served with the Second Battalion, Lancashire Fusiliers until being shot in the eye in July of that year. After twelve months in the United Kingdom, he returned to France, where he joined the Twentieth Battalion, Lancashire Fusiliers – known as one of the 'bantam' battalions. He was later posted to the staff of the 104th Infantry Brigade where he remained until demobilization in 1919. He was awarded the Military Cross in 1918.

After the war Mr MacIver returned to Christ Church. He became President of the Christ Church Boat Club and stroked the Oxford B crew in the 1919 Henley Regatta. He was called to the Bar (Inner Temple) in 1922 and practised until 1925 when he was attracted into his family's shipping business—David MacIver & Co Ltd—which had become one of the companies in the Royal Mail Group. The company was liquidated on the reorganization of the group following the Kylsant débâcle and he was appointed manager of the new Royal Mail Lines in Liverpool, from which position he resigned after about six months.

He joined the Institute as Assistant Secretary in 1935 becoming Deputy Secretary ten years later and Secretary, in succession to Mr R. W. Bankes, C.B.E., B.A., in 1950. Mr MacIver has served under thirteen Presidents and has seen the membership of the Institute grow from a little over 11,000 when he joined to its present figure of over 35,000. He was

awarded the C.B.E. in the 1960 New Year Honours List.

During the last war, he was a Lieutenant-Colonel in the Intelligence Corps and served in one of the Military Intelligence Departments.

We are sure that our readers will join with us in extending best wishes to Mr MacIver for a long and happy retirement.

# COMPUTERS AND REDUNDANCY

SHELL-MEX & B.P. LTD have decided to transfer most of their financial and statistical work from divisional offices to two new computer centres. One of these is to be established at Hemel Hempstead and the other at a place in the north not yet decided. The public interest in this development is the way in which problems of rehousing and redundancy have been handled.

News of the move was announced to the staffs in all divisional offices simultaneously one day this week. At the same time leaflets were distributed showing shops, schools and houses in Hemel Hempstead which employees were asked to take home and show their families. A coloured film strip was also shown.

To help the staff to decide whether they will move with the company or not, the company hopes to arrange visits to the town for their employees and their wives to see the computer offices and to talk to employees already living in the town. Costs incurred in the move and the arranging of mortgages, where necessary, will be taken on by the company. Those unable to move will be given the chance to transfer to other jobs wherever this is possible. Where this cannot be done they will be given bonuses based on length of service and help in finding other jobs.

# ECONOMIC STIMULUS NEEDED

THE general picture supports the view that the economy needs stimulation, that the measures recently announced by the Chancellor are justified and some further action will probably be necessary in the near future.' Such were the conclusions of the latest inquiry into industrial trends by the Federation of British Industries, from a sample of nearly 700 firms, published last week. There was a further increase in the proportion of firms reporting underutilized capacity, while the run-down in capital expenditure continues. The majority of firms report that they expect to authorize less capital expenditure in the next twelve months than in the past year. There has also been a further fall in stocks of raw materials held by industry.

The picture revealed by the export trends inquiry was not quite so depressing; there was a significant increase in the number of firms which are more optimistic about their export prospects as compared with the results of the last inquiry four months ago. Prospects for orders in the E.E.C. and the E.F.T.A. are stated to be improving, but are declining in Latin

America and worsening still further in South-east Asia, India and Japan. Delivery dates are shortening and the majority of firms report that price is becoming

an ever more important consideration.

Commenting on the findings of the latest inquiry, the F.B.I. refers to the need for reducing industrial costs, mentioning in particular the fuel tax, and stresses the need for labour-saving investments in industry. In line with the views expressed in our leading article last week, the F.B.I. notes that 'the August trade returns coupled with doubts about the future balance of payments have prevented the Chancellor from adopting a more vigorous policy on expansion'.

### IMPROVED EXTERNAL TRADE POSITION

THERE was a useful improvement in the external trade figures for September. The results for August had been exceedingly disappointing although account had to be taken of the fact that the month was the peak of the holiday season.

In September, exports increased by £16 million on the month to £325 million. Imports were £378 million which reduced the trade gap to £41 million, the best figures since June. Re-exports were almost

unchanged for the month at £12 million.

The critical question now is whether exports can keep pace with what is likely to be a rising import trend in the next few months. The official target for exports by the end of 1962 was £330 million a month and it looks as though it will be touch-and-go as to whether this is going to be achieved. The exports to Common Market countries have been particularly encouraging of late and the maintained prosperity within the European Economic Community holds out some expectation that exports will remain buoyant.

Meanwhile, any further recovery in industrial output in this country must mean increased stocking by industry and this is likely to be quickly felt on the level of imports. Earlier in the year high imports of food and animal feedingstuffs played an important part in keeping imports high. More recently restocking by business of imported semi-manufactured goods has taken over. Slightly easier terms of accommodation from the banks are likely to make restocking rather more attractive and the import bill is likely to feel the strain.

### BRITISH COAL AND THE COMMUNITY

WHEN Mr Heath returned from his recent discussions in Brussels on the question of British membership of the European Coal and Steel Community, he expressed himself well satisfied with the results. The admission of the United Kingdom coal industry into the European Coal and Steel Community is a major issue for the members of that organization. In the eyes of the Community, the National Coal Board would be a powerful member.

This country mines about two hundred million

tons of coal a year and the production and distribution of it is entirely handled by the National Coal Board. By implication the National Coal Board has control over exports. Furthermore, thanks to the vociferous support of the National Union of Mine Workers, it has become the only importer of coal into the United Kingdom. Lately, the National Coal Board has been exceedingly successful, again backed by the unions, in controlling the importation of fuel. Altogether the National Coal Board's influence in the British fuel and energy market is an impressive performance when viewed from the standpoint of the Community.

In the case of France, for example, the *Charbonnages de France* has been specifically refused the control of coal imports. For the European Coal and Steel Community to accept the National Coal Board as a member would be taking on a very large and doubtless opinionated bedfellow. On the other hand the National Coal Board would have to remove any discrimination in its price policies and would have to publish price lists in accordance with the European Coal and Steel Community Treaty, Article 60. It would also have to modify its discrimination among buyers and provide free access to the British market for dealers coming from other Community countries.

Altogether the marriage of convenience between the National Coal Board and the European Coal and Steel Community is going to be a complicated arrangement which is going to take a little time.

### INVESTIGATION ON BUILDING PROCEDURES

THE Minister of Public Buildings and Works, Mr Geoffrey Rippon, has announced that he is going to set up 'a strong independent committee' to review urgently the present practices in placing and managing building contracts. This is to be one of a number of changes which the Minister is putting in hand to give effect to recommendations made by Sir Harold Emmerson, who reported on the organization of the construction industries for the Ministry last April. Sir Harold's report was concerned mainly with the inadequate communication which exists between the professions (meaning by that mainly architects, consulting engineers and quantity surveyors), the building contractors and subcontractors and suppliers of raw materials.

Emphasizing the important role which the building industry must play in the growth of the economy, the Minister gave five undertakings. The first of these was the setting up of the committee mentioned above. The second was to proceed further with the main recommendations of the Emmerson report. The third was to set in motion an examination of the tangle of legal controls on building operations. He also intends to promote so far as possible a greater standardization of materials and components, and to improve the number and quality of personnel in the industry while, finally, he wishes to create a sense of confidence by evolving long-term construction programmes.

It is the last of these which he will doubtless find

the most difficult. It has become the custom to use the 'stop-go' technique on the building industry to control the rate of expansion of the economy. In the recent past this technique has been used rather less brutally than before, but the decision to use it at all has not so far been the province of the Minister of Public Buildings and Works. The setting of minimum targets with some flexibility upwards is highly desirable from the point of view of the building and civil engineering industry but it will be the Treasury which decides whether these changes in technique are brought about.

### THE UNIVERSITY SCENE

THERE must be many readers with children currently working for their 'A' level examinations wondering whether their offspring will succeed in the increasingly competitive struggle for a university place. The situation is not helped by the fact that

university regulations fall short of the desirable standards of clarity and simplicity, while few schools are well equipped to advise their sixth-formers about university prospects. For this reason the new edition of the booklet University and College Entrance: the basic facts, prepared by the National Union of Teachers, is to be welcomed. There is an excellent introduction on the present pressure on the universities, as well as the facts of financing a boy or girl through college which will save many parental tears. For each college of university status in Britain, as well as the colleges of advanced technology, the entrance requirements for each faculty and the degrees offered are set out clearly and intelligibly. Any parent who is hoping to put his child through college in the next year or two will derive considerable help and guidance from this excellent booklet.

<sup>1</sup> From the National Union of Teachers, Hamilton House, Mabledon Place, London WC1, or any bookseller. Price 4s net.

# This is My Life . . .

by An Industrious Accountant

CHAPTER 142

I REMEMBER long ago going to the senior partner in the firm of auditors I was with to tell him that I had reluctantly decided to leave him. I had been offered the post of whole-time secretary/accountant to this big textile concern at a staggeringly enhanced remuneration, I explained; it was a big day for me.

There he sat behind his desk, the shrewd, kindly little man under whom I had worked for years, smiling benignly. Yes, he knew all about it. They had very properly consulted him first. He had congratulated them then, he explained overwhelmingly; he would congratulate me now. True, I was foresaking the profession, but he understood and forgave; our relations were most cordial; we shook hands warmly.

At length I broached a point which seemed important to me. I'd like a reference from him. It seemed to me to be a normal request, as I felt my record had been good. Adjectives such as 'diligent' and 'reliable' passed through my mind; 'tireless' or 'exceptionally talented' were not perhaps impossible.

'I'm very sorry; we don't give references,' he beamed, much to my surprise. I explained the desirability of keeping my personal file up to date; should I look for another job in a year or so, even in a couple of months if the new post should have unforeseen snags, prospective employers would be favourably impressed by a good testimonial.

'We never give references. Just ask them to telephone or write to me,' said the senior partner, still smiling blandly. I felt he was rather obtuse. He might be sick, or away on holiday; he might be reluctant to talk about an ex-employee's character to an unknown voice out of the blue. 'Don't worry,' he said. 'I'll look after that side of it.'

A silence fell. The eyes watching me seemed curiously flinty. I had an instinctive feeling that there was more here than appeared on the surface, that he'd been over this ground before. Was he reluctant to concede my independence, was he trying to keep a long-range hold over me? After all, any future application by me to another firm was my private business; why should he reserve the right to know about it? He might even be personally involved in some way; the passage of months might have changed our relationship adversely. Had he something held against me in the back of his mind, which he had shrewdly kept secret?

'As I see it,' I said deliberately, 'I'm morally entitled to a statement testifying to my satisfactory services and good record as at today's date. Your refusal may jeopardize my prospects in the future.

You're not being quite fair to me.'

'It's not quite as simple as that,' replied the senior partner. He hesitated momentarily, as if about to explain something, then decided against it. 'As we don't give references, you'll have to rely on the telephone. I'm afraid there's no more to be said on the point.' He probably read in my face my unspoken resolve never to use his name even in extremity; his own face looked suddenly tired. But I was really hurt by his refusal; my farewell was strained and almost hostile.

Opinions seem to differ on this point. The precedents of other professions are not really relevant to an accountant, who must rely on the degree of warmth of the reference's praises. I wonder what justice should decree in a case like this; how far beyond justice should comradeship go?

# Finance and Commerce

### Collingwood Group

THE Collingwood Group, whose accounts are the subject of this week's reprint, is one of the newer industrial holding companies and one, it may be stated at the outset, with a sound record based on keen management. Interests fall into three main divisions: retail, engineering and property investment and development.

The retail interests are in jewellery – the original company from which the present group has stemmed was – and still is for that matter – the Collingwood business of Middlesbrough. Development has brought the well-known Carrington company into the group

as well as a number of other concerns and individual jewellery retail businesses.

John Shepherd & Sons and S.M.L. (Engineers) are two of the principal engineering subsidiaries, John Shepherd being a leading name in the field of poultry equipment — not to be confused with broilers. Property investment and development is mainly in the hands of Dauphine Property Investments.

The accounts cover a year of increased earnings, the maintenance of dividend on an increased capital, and a point of particular importance in this type of organization, the achievement of a sound cash position.

### **Substantial Progress**

Collingwood Group's chairman, Mr Edwin H. Marley, M.B.E., T.D., F.C.A., is one of two accountants on the board, the other being Mr Everard Goodman, F.C.A. Mr Marley reports that negotiations for a number of acquisitions had reached an advanced state at the date of the report and, with the first six months of the current year having shown a satisfactory increase in group turnover and profits, he looks

## THE COLLINGWOOD GROUP LIMITED and its Subsidiary Companies Consolidated Profit and Loss Account—Year ended 28th February, 1962

Year Ei 8th Feb	ruary,																	
196 £	ı E			•													£	£
57,667	***	Trading Profit fo	or the ye	ar be	fore t				t the			t belo	w (see	Note 7	)			362,8
	465 6.114	Income from Investment Inc		estme	ents	••	• •	••	• •	• •	• •	• •	• •	• •	• •	••	211	
	469	Bank Interest		le	• •	•••	• • •	::	••	• •	• •	••	• •	••	• •	• •	1.372	
	94	Underwriting	Commissio	n		••		• •	••				::	• • • • • • • • • • • • • • • • • • • •		::		
7,142		Interest on T	ax Reserv	e Cer	tificate	es	••	••	• •	••	• •	• •	••	• •	• •	••	174	1.
																	-	
4,809		Deduct:																364,
	9,402		reciation	(see N	lote 5)												15,263	
	6,889		tgage Inte			••			• •			••			• •		7,877	
	13,363		k and Oth			Ti: C-	. 172	.:: ,			, ción	• •	• •	• •		• •	5,539	
32,299	2,645	Aud	itors' Rer	nuner	ation (	ine Co	Mauritic	000 0	roup i	.imited	£250)	••	• •	••	• •	• •	3,004	31.
		•																31,
12,510		Profit before Ta	xation (s Taxation b			_: <b>·</b>	••	••		••			••		• •			332,
	26,570		its Tax		therec												50,251	
	20,570	Inco	me Tax			::	•••		•••	•••	••	••	••	••	£132	2.776	30,231	
			Less: Adj	ustme	nts du	e to ch	ange o	f acco	unting	dates (	(£9,345	credite	d in 19	61)		3,217		
	77,079													•			124,559	
13,649																	***************************************	174
8,861		Profit after Tax	ation								٠.							158
	32.651	Deduct:	acquisitio	n Proj	Her of	Subeldi	ariae										38,498	
	62		acquisition Exp					n off	• • •	• •	• •	• •	• •	• • •	• •	••	30,770	
12,713		, , , ,			.,	,	,	11	••	•••	••	••	••	••	•••	••		38,
							<b>-</b>		_									
	94,744	Balance-Dealt v	vith in the d forward	e Acco	ounts o	of the			Group	Limit	ed	• •	• •	••	• •	• •	117,627	
6,148	1,404	Carried	o iorward	ру зи	osidia	ries	••	••	••	• •	• •	• •	• •	• •	• •	••	1,997	119
0,770		Balances brough	t forwar	d fro	m last	t vear:	:								•			
	4,239	The Collingw															39,421	
		Subsidiaries	• •			• •			• •						• •		1,404	
4,239																		40.
0,387																		160
.0,507		Deduct:																,,,,
			isfer to G													••.	40,000	
			isfer to G				Reserv	e	• •	• •	• •	• •	• •				22,203	
	7,477		idenas, les reference		me la	x:											8,453	
	6.725	,,	rdinary	Specia	Linteri	m (baic	l 15th 5	epterr	ber. 19	60)	• • •		• •		••	• •	0,433	
	20,603		Interim.	163%	paid in	ı Marci	ո. 1962	(see !	lote	)	::	• • •				• • •	17,113	
	25,357		Proposed	Final,	20%	(see No	te [1]				••						21,062	
9,562							·											108,
		Balances carried	forward	1:														
	39,421	The Collingw	ood Grou	ıp Lim	ited			• •	••	• •							48,217	
	1,404	Subsidiaries	••	• •	••	••	• •	• •	••		• •	••	• •		• •		3,401	pr
10,825																		£51,6

# THE COLLINGWOOD GROUP LIMITED

Z,	NOTES ON THE ACCOUNTS	
[. Share Capital		
ir the Company's issued share capital has been incre		op Properties: Brought forward 302,272
63% Cumulative Preference	Ordinary Shares of	At Cost
Shares of El		perty:
each, July paid	=	•
At 28th February, 1961 187,810	207,000	£429,302 £453,416
action of the purchase price of two subsidiar	10,547	Opinion of the opinion
Scrip issue of 543,868 Ordinary Shares of 2s. each credited as	1, 207	that their current valuations are in excess of book values. For the same reason no amortisation
fully paid	24,367	has been provided in respect of Leasehold Shop and Investment Properties Maying an aggingace hook value of £127,030.
018'5727	C271,934	r Vehicles, etc.: 1962
	•	
	42.000	At Valuation in 1959 and 1961 19,000 At Cost
Balance at 28th rebruary, 1961		
	77,715	23,000 Less: Depreciation 35,699 20,017 44 546
	119,715	710,00
Deduct:		:
Amounts capitalised and applied in paying up Scrip Issue of 54,387	•	: Depreciation
		1
:	54,667	1/2,39/ £01,405
	£65,048 <b>6.</b>	Premium on acquisition of shares in subsidiaries
	The	This comprises the net excess of the cost of shares in subsidiaries over the book value of their net reacible ascers (adjusted to include properties as revalued) on dates of acquisition.
3. Capital Reserves		
Bullings at 28th Entrino 1961	127,950 7.	Trading Profit The Bending and Lord Account includes the profits of R. W. Shippam Limited, S.M.L. (Engineers)
		Limited and J. D. Crichton Limited (a subsidiary of Carrington & Co. Limited) for periods of
Goodwill of a Subsidiary Company written off	1,200	20 months, 18 months and 23 months respectively. If the profits of these companies had been included for 12 months only (apportioned on a time basis) the Group Trading Profit would
3,720	126,750	have been £320,321 and the Group Profit before Taxation £292,569.
Sundry Adjustments 75	94	
£3,795	£126,844	s of the Directors of the Company were as
4. Shares in subsidiaries	Shi	: : : : : : : :
During the year the Company acquired the whole of the issued share capitals of N. V. Shippani Limited and S.M.L. (Engineers) Limited, and Carrington & Co. Limited acquired the whole of	whole of	
the issued share capital of J. D. Crichton Limited. The results of these newly-acquired subsidiary		
companies nave been included as from 15th factor, 5rd, 5rd, 5rd, 5rd, from the creatively.	*	al Expenditure at 28th February, 1962, are
		T Z
5. Fixed Assets	1961	
<u> </u>	1961	Ine Group: 53,850 4,200 Freehold Properties 53,850 4,200
(a) Freehold Shop Properties:	£ 8 845	2,150
At Cost	162.000	£56,000 £4,200
:		THE PROPERTY OF THE PROPERTY O
Freehold Investment Property:	86,851	The Company has guaranteed the Mortgage Loans of three subsidiary companies amounting to
and Industrial Property:		£135,000 at 28th repruary, 1762, and shares in two subjugary companies are deposited. Bankers to support overdraft facilities which are available to the Group when required.
: : :	-	and their wight to the Interim and
At Valuation in 1960 99,300	67,700	Two Directors of the Collingwood Group Limited have waived their light to the interim and Final Dividends had been paid they
Carried forward 302,272	325,416	would have amounted in the aggregate to £22,203 after deducting Income Tax at 7s. 9d, in the £.

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Share Capital Issued and Fully Paid (see Note I): 61% Cumulative Preference Shares of £1 each	ote I): £	¥	51 12	1961 £ 453.416	Fixed Assets (see Note 5):	£ 430 303	ч
: : .		497,744	514,622	61,206	Plant, Machinery, Motor Vehicles, etc.	75,397	504,699
Share Premium Account (see Note 2) Capital Reserves (see Note 3)	::	65,048 126,844	5,266		Quoted Trade Investments at cost (Market Value 72.995—1961 £4.555)		3,634
enue Reserves: General Reserve Group Staff Pension Reserve Profit and Loss Account	50,000 22,203 51,618		981'9	-	Endowment Policies: Premiums Paid (Surrendor Value £5,746—1961 £2,675)		10,266
Total Share Capital and Reserves Amounts set aside for Income Tax 1962/63 Loans on Mortagage (see Note 10)	:::	123,821 813,457 123,157 145,719	695,800	441,431 185,602 68,767	Current Assets: Stocks and Work in Progress Debtors and Prepayments—less provisions Balances at Bankers and Cash in Hand	534,220 200,012 104,754	838,986
rent Liabilities: Creditors and Accruals Bank Overdrafts (1961 £28,702 Secured)	199,209		21,525		Premium on Acquisition of Shares in Subsidiaries (see Note 6)		124,634
Interim Dividend—less Income Tax, since paid (see Note II) Proposed Final Dividend—less Income Tax (see Note II)	-	399,886			E. N. GOODMAN } J. TAYLOR		
The relevant Notes on page [506] form part of this Balance Sheet.	. Sheet.	£1,482,219	£1,243,399			'ভ্ৰ'	£1,482,219

, 1962	
FEBRUARY	
r AT 28th	
CE SHEET	
BALAN	

BALANCE	ESHEE	BALANCE SHEET AT 28th FEBRUARY, 1962	• •				THE COLLINGWOOD GROUP LIMITED (The Holding Company)	OOD GROUP LIMITED (The Holding Company)	OUP LIN	4ITED Ipany)
1961	<b>3</b>	Share Capital (see Note 1): futhorised	ч	Issued and fully paid	1961	1 701,078	Subsidiary Companies (see Note 4): Shares at or under cost	:	£ 34,030	-
	207,000	of fileach of fileach 375,000 Ordinary Shares of 2s. each 375,000 Unclassified Shares of fileach 125,000		225,810		29,489 730,567 225,701	Amounts due by Subsidiaries Less: Amounts due to Subsidiaries	: :	32,009 916,039 247,682	:
394,810		g g		497,744	000,400	2,382	Motor Vehicle at cost	:	2,382	668,357
3,720		Capital Reserve (see Note 3)		3,795	. 069'1	76	Less: Depreciation	:	1,032	1,350
	10,000	Revenue Reserves: General reserve	50,000		120	134	Office Machinery and Fixtures at cost Less: Depreciation	::	33	<u>‡</u>
49,421	39,421	Froit and Loss Account	48,217		5,266		Quoted Trade Investments at cost (Market Value 12,995—1961 £4,555)	:		3,634
469,751	21,974 28,702	Cur.	14,636			4,925	Current Assets: Taxation Recoverable, Debtors and Prepayments Dividends Receivable from Subsidiaries—since declared		6,014	
;	20,603	(see Note 11) Proposed Final Dividend—less 11 Note 11)	17,113		74,645	14,720	Balances at Bankers	::	22,1	66,036
96,636 £586,587	The	The relevant Notes on page [506] form part of this Balance Sheet.		52,811	£586,587		J. TAYLOR	<u> </u>	ų.	£739,818

for this year to show 'further substantial progress and record profits'.

The growth of the group now appears to have reached the stage where the directors should seriously consider providing a breakdown in earnings by divisions and also providing an indication of the extent to which profits included new earnings from acquisitions.

Note 7 on the accounts puts the annual earnings rate into perspective but in an industrial holding company it is useful to go further than that. Accounts of companies of this type are difficult to prepare, but profits by divisions and profits common to both years plus new earnings provide the basic requirements once the pattern of group development has been set.

### **Qualification**

IN some boardrooms there is still a guarded Lapproach to the publication of half-year figures. Seasonal earnings fluctuations and possible misinterpretation of the figures are two of the most often quoted reasons for deciding against giving share-

### CITY NOTES

THE September trade figures, although not as bad as those of the previous month, were hardly good enough to turn the equity markets from negative to positive optimism. There is, at present, a mood of negative optimism in the market based on the acceptance that profit margins remain under severe pressure, that order books need replenishing and that surplus capacity tends to grow, but also that the Government will 'do something about it'.

So far, the Chancellor has simply made initial moves in the credit sphere, but the Federation of British Industries has lately put the case for more positive action in the shape of incentive towards a higher rate of industrial capital investment and of scrapping the fuel oil duty in order to cut industrial

At the Conservative Party conference Mr Maudling gave little or no indication that he was prepared to go all out on the question of economic stimulus but the market lives in hope.

Meanwhile the latest report from the Common Market countries indicates a slowing down in the industrial growth rate with as many common industrial symptoms of over-production and rising costs as there are here. Within that situation the Chancellor may be able to introduce stimulants and may, as a result, be able to stimulate the stock-market. Whether he can stimulate industry and the economy is another

The equity market would certainly respond quickly to any new official moves but any sharp price rise might prove difficult to sustain.

The recent half-year statement from Transparent Paper Ltd, however, showed clearly enough how a few words of explanation can help in special circum-

holders an interim view of the way profits are going.

stances. The half-year figures showed trading profits at £310,000 against a comparable £379,000 and net profits at £73,000 against £112,000, the interim

dividend being maintained at 5 per cent.

The directors stated that for several reasons, including factory reorganization, group profits were lower during the first four months of the year, but improvement had since taken place. If the present profit rate is maintained, the statement added, the final figures will compare favourably with 1961.

Finally the directors said that they thought that to publish the half-year's figures without qualification would be misleading under the circumstances. It certainly would have been. But the need to qualify is so often taken as an argument against providing figures, that this example of figures plus necessary and adequate qualification deserves notice as an argument 'For' rather than 'Against' the provision of the interim profit view.

### RATES AND PRICES

Closing prices, Wednesday, October 17th, 1962

Tax Reserve Cer	rtificates:	(interest rate)	25.8.62 21%
	Bank	Rate	
Oct. 27, 1960 Dec. 8, 1960 July 26, 1961 Oct. 5, 1961	5½% 5% 7% 6½%	Nov. 2, 1961 Mar. 8, 1962 Mar. 22, 1962 April 26, 1962	
4	Treasur	ry Bills	
Aug. 17 £3 158 Aug. 24 £3 158 Aug. 31 £3 158	8·84d% 8·35d% 6·4·50d% 6·4·2d% 6·4·55d%	Sept. 14 £3 Sept. 21 £3 Sept. 28 £3 Oct. 5 £3 Oct. 12 £3	125 8·42d% 125 4·13d%
	Money	Rates	
Day to day 7 days Fine Trade Bills 3 months 4 months 6 months	2\frac{9}{4} 3\frac{9}{8}\% 2\frac{1}{4} 3\frac{7}{8}\% 5\frac{1}{2} 6\% 5\frac{1}{4} 6\frac{1}{2}\%	Bank Bills 2 months 3 months 4 months 6 months	3 18 - 3 7 % 3 18 - 3 7 % 3 18 - 3 7 % 3 18 - 3 18 %
:	Foreign E	xchanges	
New York Montreal Amsterdam Brussels Copenhagen	2·80 32 3·01 16 10·10 1 139·42 1 19·40 1	Frankfurt Milan Oslo Paris Zürich	11·21 <del>1</del> 1739 <del>1</del> 20·03 <del>1</del> 13·72 <del>1</del> 12·10 <del>1</del>
	Gilt-e	dged	•
Consols 4% Consols 2½% Convrsion 5½% 197 Conversion 3½% 197 Conversion 3½% Exchequer 5½% 196 Funding 5½% 82–8 Funding 3½% 99–6 Funding 3½% 99–6 Funding 3% 66–68	71 103 16 169 94 16 60 16 66 103 14 101 16 19 95 16 10 68 16	Funding 3% 6 Savings 3% 6 Savings 2½% Treas'ry 5½% Treasury 3½% Treasury 3½% Treasury 3½% Victory 4% War Loan 3½%	0-70 89 5 5-75 83 1 64-67 97 1 2008-12 97 1 86-89 92 1 77-80 82 1 79-81 80 18 1 44 1 98 1

# Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

### **Estate Duty Reduction**

SIR, — We wish to refer to Mr Cyril Williams's article on 'Estate duty reduction' in your issue of September 29th, and particularly to the sentence 'if a charge is allowed to appear in favour of the surviving spouse its release will attract duty if within the statutory period'.

In a case of a recent death now before us, the estate consisting of realty and personalty (both settled) no duty has yet been paid on realty, but the bank have made an advance to the executors to enable them to pay duty on personalty. No realizations in the estate have been made in order to repay advances for duty. The inference which we feel can be drawn from Mr Williams's article is that if the surviving spouse pays (within twelve months of the first death) the duty on realty, and now puts the estate in funds, without creating any charge in his favour, to repay the loan made for the payment of duty on personalty, then on the death of the surviving spouse, in due course, no estate duty will arise on the sums so paid, whether or not made within five years of the survivor's death.

Legal opinion given to us, however, does not support that inference, and considers that such payment as is made now by the surviving spouse, at any rate as regards duty on personalty, must be regarded as a disposition, and subject to the five-year period.

Does Mr Williams support the inference or the opinion?

Yours truly,

'FLEET'.

[Mr Williams writes: I support the legal opinion to which your correspondents refer. I entirely accept the view that if the survivor pays the duty out of his own funds that this is a disposition which will attract duty should the survivor die within a period of five years. The amount subject to duty would of course be relieved by the 15 per cent, 30 per cent and 60 per cent reductions by section 64, Finance Act, 1960. The point about the creation of a charge in this connection is merely that this may prevent the five-year period from starting to run.

The purpose of the scheme which I have tried to demonstrate is that this enables a surviving spouse to make a gift to the remaindermen of the deceased spouse's estate – who in many cases would be lineal descendants whom the survivor would wish to benefit

- which would be effective after five years and yet at the same time would enable the surviving spouse to retain a life interest in the funds gifted.

Your correspondents appear to be in just the right position to take advantage of the scheme which I have propounded. The estate of the first spouse appears to remain intact and if the survivor repays the bank overdraft created for the purpose of paying the estate duty on the personalty and also pays the estate duty on the realty in due course, taking care not to accept a charge in respect of the latter, then in my view the whole of the original estate which will be retained intact will be exempt from estate duty of the death to the survivor by reason of section 5 (2), Finance Act, 1894, as amended and as restricted by section 14, Finance Act, 1914, that is by the second of two spouses rule. I did not mean to infer that the gift made by the survivor would not be on risk for five years.]

### Training Accountants for Industry

SIR, - I have read with considerable interest the address 'The training of accountants for industrial responsibilities', by Mr G. W. Searle in *The Accountant* of September 22nd and 29th. I myself am a relative new-comer into industry, having qualified in 1954 and now occupying the position of managing director in a small company employing only ninety-five people.

Whilst agreeing with many remarks made by Mr Searle I cannot reconcile my own experiences with the suggestion put forward of giving articled pupils greater scope in the industrial sphere during their period of training. The effort required for the Final examinations constitutes a tremendous strain on the individual and any mediocre attempt during this limited period to understand industry with its many and varied problems is like taking only one small bite at the apple. I consider that an articled pupil should primarily concentrate all his efforts on examination work.

Two distinct phases should be laid down with regard to establishing oneself as a fully-qualified accountant. The first phase should involve examination work only. At this juncture respect would still be obtained commensurate with qualifying as an accountant. The second phase should incorporate the development of personality as a qualified accountant. A definite period of time should be allocated so that this personality (as distinct from knowledge) be allowed to develop together with the furtherance of knowledge in industrial spheres.

In my short period of time I have learnt that to qualify as an accountant is one thing but to gain knowledge of industry and subsequently develop personality in order to administer on a general basis is another. This cannot possibly be taught during a limited period of apprenticeship whilst actual study is of such importance.

Yours faithfully,

M. J. COMPTON.

Nuneaton.

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

### SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At a meeting of the Council held on Wednesday, October 10th, 1962, at the Hall of the Institute, Moorgate Place, London EC2, there were present: Mr Percy F. Carpenter, President, in the Chair; Mr Robert P. Winter, C.B.E., M.C., Vice-President; Mr J. F. Allan, Mr C. Percy Barrowcliff, Mr G. T. E. Chamberlain, Mr J. Clayton, Mr C. Croxton-Smith, Mr E. Hay Davison, Mr W. G. Densem, Sir Harold Gillett, Bt, M.C., Mr J. Godfrey, Mr G. G. G. Goult, Mr P. F. Granger, Mr L. C. Hawkins, Mr J. A. Jackson, Sir William Lawson, C.B.E., Mr E. N. Macdonald, D.F.C., Mr L. W. Robson, Mr D. Steele, Mr J. C. Montgomery Williams, Sir Richard Yeabsley,

### Bve-law 47

The amendments to bye-law 47 as approved by members on May 3rd, 1962, were allowed by the Lords of Her Majesty's Most Honourable Privy Council on August 2nd, 1962, and the revised bye-law is therefore now effective.

### **Registration of Articles**

The Secretary reported the registration of 561 articles of clerkship during August and September, the total number since January 1st, 1962, being 1,769.

### Fellowship

The Council acceded to applications from sixteen associates to become fellows under clause 6 of the supplement Royal Charter.

### Re-admission to Membership

It was reported to the Council that the following readmissions, made at the Council meeting on August 1st, 1962, subject to payment of the amounts required, had become effective.

Howell, William Mostyn, A.C.A., 'Bryncerdin', Cefn Coed, near Merthyr Tydfil.

Jones, William Peter, A.C.A., Griffiths & Sutton, 152/154 Lord Street, Southport.

Sutton, Thomas Hague, F.C.A., Griffiths & Sutton, 152/154 Lord Street, Southport.

### **Exclusion Expunged**

At a hearing by the Disciplinary Committee on July 4th, 1962, the committee decided that Mr Frank Norris Pinder, F.C.A., be excluded from membership for non-payment of subscription. It has been reported to the Council that notification has now been received that Mr Pinder died in 1961, and accordingly the Council resolved that the exclusion of Mr Pinder be expunged.

### **Members Commencing to Practise**

The Council received notice that the following members had commenced to practise:

Barton, Brian Henry, A.C.A., a1960; 26 Bedford Avenue, Barnet, Herts

Biddle, Donald Frank, A.C.A., a1956; †Smith & Williamson, Scottish Union House, 25 Bucklersbury, London EC4,

and at Glasgow.

Bird, Arthur William, A.C.A., a1959; Greaves, Grindle & Co, Victoria House, Bondgate Within, Alnwick, Northumberland.

Board, Clinton Julian, A.C.A., a1959; Cobden, Board & Co. Fountain House, Broomgrove Road, Sheffield 10; also at London, †Cobden, Board & Co.

Bond, Alan, A.C.A., a1959; L. Milburn & Co, 48 West Sunniside, Sunderland.

Bouic, Joseph Gaetan, A.C.A., a1961; ††de Chazal, du Mée & Co, 10 Intendance Street, Port Louis, Mauritius.

Bryant, Peter David, A.C.A., a1960; Warley & Warley, 13
Bloomsbury Square, London WC1, and 74 Marylebone
High Street, London W1; also at Tonbridge.

Burtwell, George Arthur, A.C.A., a1953; Charles Comins & Co, 50 Cannon Street, London EC4.

Cappin, Michael Benedict, A.C.A., a1962; Benedict Cappin & Co, 22 Riverside Drive, London NW11.

Carsberg, Bryan Victor, A.C.A., a1960; Bryan Carsberg & Co, 18 Hill Avenue, Amersham, Bucks.

Christie, John Denton, A.C.A., a1961; 33 Avondale Gardens, Hounslow, Middx.

Clarkson, Alan Malcolm, A.C.A., a1959; \*N. W. Plummer & Co, 73 Gillygate, York.

Coleman, Robert Grant, M.A., B.COM., F.C.A., aS1940; C. St John Frost & Co, 82 Station Road, Clacton-on-Sea, Essex. Collett, Christopher, A.C.A., a1953; †Price Waterhouse &

Co, 31 Mosley Street, Newcaste upon Tyne 1.
Collyer, Brian Percy, A.C.A., a1961; Higson & Co, White House, Wollaton Street, Nottingham.

Coventry, Edward Reginald, A.C.A., a1959; 52 Hillview Gardens, Cheshunt, Herts.

Crapp, Leslie Rufus, A.C.A., a1960; Willcox & Co, La Motte Chambers, St Helier, Jersey, C.I. Cutts, Michael Arthur, A.C.A., aS1953; Geo. W. Spencer & Co, 110 Cannon Street, London EC4, and at Chelmsford.

Davies, Anthony Warren, A.C.A., a1962; E. H. Davies & Co, 45 Parliament Street, Westminster, London SW1.

a Indicates the year of admission to the Institute.

aS Indicates the year of admission to The Society of Incorporated Accountants.

§ means 'incorporated accountant member'.

Firms not marked † or \* are composed wholly of members of the Institute.

- † Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.
- \* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and
- †† Against the name of a firm indicates that the firm includes an incorporated accountant member of the Institute and is composed wholly of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.
- ¶ Means 'member in practice'.

- Denman, Peter Leonard, A.C.A., aS1957; 17 Strawberry Lane, Charshalton, Surrey, and at London.
- Douglas, Stanley, F.C.A., a1949; Duncan, Watson & Short, B22 The Temple, Dale Street, Liverpool 2.
- Edwards, Gordon William Francis, A.C.A., a1959; Gordon Edwards, 2 Colvin Road, Thornton Heath, Surrev.
- Fern, Edward Arthur, A.C.A., a1961; Thornton Baker & Co, 2 Queen's Road, Coventry; for other towns see Thornton Baker & Co.
- Grant, Newton Keene, A.C.A., a1960; Pridie, Brewster & Gold, 2/3 Warwick Court, Gray's Inn, London WC1.
- Gray, Ronald Eric, F.C.A., aS1941; †Peat, Marwick, Mitchell & Co, 17 Eldon Square, Newcastle upon Tyne 1, and at Darlington and Middlesbrough.
- Greenwood, William, A.C.A., a1953; 25 Bedford Road, St Ives, Cornwall.
- Hammond, Walter Joseph, A.C.A., aS1957; Jenkinson, Hammond & Co, Pearl Assurance Buildings, 49 Bank Street, Bradford 1.
- Heaver, Richard Stanley, A.C.A., aS1955; Russell, Ohly & Co, 94 Church Road, Hove 3, Sussex.
- Heffron, John Joseph, B.COM., A.C.A., a1960; Wickenden & Co, Market Chambers, Shelton Square, Coventry.
- Herman, Daniel, B.A.(COM.), A.C.A., a1960; 76 The Avenue, Sale, Cheshire.
- Hodgkinson, (Miss) Patricia, LL.B., A.C.A., a1960; Hodgkinson & Co, 98 Beddington Gardens, Wallington, Surrey.
- Holloway, Robert Ernest, A.C.A., a1959; Boorman, Chester, Newman & Co, Mitre House, 177 Regent Street, London W1, and at Twickenham.
- Hutchins, Robert William, A.C.A., aS1957; Cozens, Bate & Co, Central Chambers, 8/16 Park Street, Bristol 1.
- Jee, John Frederic, A.C.A., a1953; Thornton Baker & Co, Stoneleigh Chambers, 2 Queen's Road, Coventry; for other towns see Thornton Baker & Co.

  Jolly, David Anderton, A.C.A., a1959; \*Atwell, Jolly & Co,
- and David A. Jolly & Co, 309A High Road, Loughton,
- Jones, Kenneth Ankers, A.C.A., a1960; Joseph Thompson, Marsden & Co, Martins Bank Chambers, I The Rock, Bury.
- Kanesalingam, Sabapathipillai, B.SC.(ECON.), A.C.A., a1962; Kanesalingam & Co, 265 Galle Road, Colpetty, Colombo 3, Ceylon.
- Keeling, Frederick Alexander, F.C.A., aS1951; \*Turquand, Youngs & Co, Anglo Oriental Building (P.O. Box 68), Kuala Lumpur, Malaya; and at Bangkok, Djakarta, Ipoh, Jesselton, Kuching and Penang; also at Singapore, \*Turquand, Youngs & Co, and \*Henry Noon & Co.
- Kerr, Michael John, A.C.A., aS1955; 18 Park Drive, Winchmore Hill, London N21.
- Kemp, John Stevenson, A.C.A., a1961; A. B. Moody, Temple Buildings, Bowlalley Lane, Hull.
- Lanigan, Gerard, A.C.A., a1958; Jack Ross & Co, 16 John Dalton Street, Manchester 2.
- Lees, Lawrence Henry, B.COM., A.C.A., a1961; Roberts, Gordon, Wise & Co, 9 Clare Street, Bristol 1. Lellman, Victor Kelvin, A.C.A., a1957; 71 Devonport Road
- (P.O. Box 222), Tauranga, New Zealand.
- Lowe, James Russell, F.C.A., a1950; 43 Central Drive, Shevington, Wigan.
- Maynard, Stanley George, A.C.A., aS1957; Tiplady, Brailsford & Co, 36/38 New Broad Street, London EC2.
  Mills, Granville Walker, A.C.A., a1956; Morris, Gregory &
- Co, 3 York Street, Manchester 2, and at Macclesfield, Oldham and Widnes.
- Minter, Michael Alan, A.C.A., a1960; 42 Kevington Drive, Marlings Park, Chislehurst, Kent.
- Nicholas, Peter Norman, F.C.A., a1951; Luxon, West & Co, 2 Wedgwood Villas, Ford Park, Plymouth.

- Palfreyman, Ronald Arthur, B.Sc. (ECON.), A.C.A., a1953; Palfreyman & Holland, Central Chambers, Red Lion Square, Heanor, Derbyshire.
- Payne, Morton, F.C.A., a1949; Duncan, Watson & Short,
- B22 The Temple, Dale Street, Liverpool 2.
  Pidgeon, Guy William Farnell, F.C.A., a1949; †Cooper
  Brothers & Co, and †Coopers & Lybrand, "The Arches," Thorpe Road (P.O. Box 2533), Accra, Ghana, and at Lagos.
- Pittom, Thomas, A.C.A., a1955; Thornton Baker & Co, 8 West Walk, Princess Road, Leicester; for other towns see Thornton Baker & Co.
- Reynolds, Anthony Robert, A.C.A., a1961; Grugeon, Reynolds & Co, 56 Westmoreland Road, Bromley, Kent. Richardson, James Ernest, A.C.A., a1962; \*Percy Hollands & Co, 40 Tonbridge Road, Maidstone, Kent, and at Chelmsford; also at London, Geo. W. Spencer & Co.
- Royce, Harry, A.C.A., a1960; Rushworth, Salter & Co, 116 Church Street, Eccles, Manchester.
- Russell, John Alan, A.C.A., a1956; Cocke, Vellacott & Hill, 16 Berkeley Street, London W1.
- Sadler, James Anthony, A.C.A., a1961; Doogood, Sadler & Co, 17 Constitution Hill, Birmingham 19, and at Bewdley. Simmons, Brian Edward, A.C.A., a1961; Alfred Simmons & Co, The Market Hall, Redhill, Surrey.
- Stone, Ivor Michael, A.C.A., a1961; 53 Fields Road, Newport, Mon.
- Swales, David John, A.C.A., a1959; Howlett Jones, Higgins & Co, 73 Lewisham High Street, Lewisham, London SE13, and at 4 Stone Buildings, Lincoln's Inn, London WC2.
- Sykes, Henry John Leigh, A.C.A., a1959; \*Alderson, Allen & Co, 1 Cockton Hill Road, Bishop Auckland.
- Taylor, Michael John Graham, A.C.A., a1961; Michael J. G. Taylor & Co, 71 Margaret Street, London Wr.
- Trigwell, Douglas Alfred, A.C.A., a1953; 14 Walkwood Rise, Beaconsfield, Bucks.
- Tyler, Robert Henry George, A.C.A., a1953; 104 Pennine Avenue, Sundon Park, Luton.
- Ward, Kenneth Edward, A.C.A., a1961; Prince, Croft & Ball, 14 Christchurch Road, The Lansdowne, Bournemouth. Watts, David James, A.C.A., aS1953; \*James Dix, Pullen & Watts, 128 Wing Road, Linslade, Leighton Buzzard,
- Watts, David Jones, A.C.A., a1960; Edwin Bradshaw & Son, 3 Springfield Street, Warrington.
- Wells, John Reginald, A.C.A., a1952; †Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London EC2.
- Wickenden, Roland Bernard, F.C.A., a1948; Wickenden & Co, Market Chambers, Shelton Square, Coventry.
  Wiles, Ronald Sidney, A.C.A., a1960; †A. Wood Frankson & Co, Central Hall Buildings, South Road, Southall, Middx. Williams, Derek, A.C.A., a1959; Buckle, Fray, Locke & Co, 26 Victoria Road, Woolston, Southampton, and 164 High
- Street, Southampton.
  Woods, Patrick Ignatius, A.C.A., aS1954; †Lindsay, Jamieson & Haldane, 110 Cannon Street, EC4, and at
- Edinburgh.

### Admission to Membership

- The following were admitted to membership of the Institute:
- Abercrombie, Alexander John, A.C.A., a1962; 'Braeside', Tanworth-in-Arden, Solihull, Warwicks.
- Acomb, Norman Mackenzie, A.C.A., a1962; 11 Hazelwood
- Avenue, Riddlesden, Keighley, Yorks.
  A'Court, Stephen, A.C.A., a1962; 8 Friars Road, Ipswich. Acratopulo, Paul Anthony, A.C.A., a1962; 'Willowfield', Bertram Drive, Hoylake, Cheshire.
- Adams, Nigel Derek, A.C.A., a1962; The Old Hall, Hunningham, near Leamington Spa, Warwicks.
- Adey, John Brian, A.C.A., a1962; 'Whinn Scarr', Rock Lane, Towneley, Burnley.

Afia, Peter Maurice, A.C.A., a1962; 57 Berkeley Court, Baker Street, London NW1.

Aitken, Kenneth George, A.C.A., a1962; c/o 6 Manor Gardens, South Ruislip, Middx.
Aldington, Timothy Richard, A.C.A., a1962; The Dial House,

Sunninghill, Berks.

Alexander, Anthony George Laurence, A.C.A., a1962; 2 Packhorse House, Packhorse Road, Gerrards Cross, Bucks. Allen, Frederick William, A.C.A., a1962; 14A Harcourt Road, Wallington, Surrey.

Allum, Anthony Restal, A.C.A., a1962; 4 Wheatlands Grove,

Harrogate.

Ambrosini, Carlo Ferdinando, A.C.A., a1962; 9 Milton Road, Highgate, London N6.

§Amos, Alexander, A.S.A.A., a1962; 38 Meeks Road, Falkirk, Stirlingshire.

Anderson, Robert, A.C.A., a1962; 17 Woodhall Avenue, Pinner, Middx.

Andrews, Brian Trevor, B.A., A.C.A., a1962; 35 Buttrills Road, Barry, Glam.

Anjous, Babatunde, A.C.A., a1962; with Wood, Bradfield & Co, Woodfield House, James Street, Neath, Glam.

Annesley, Richard Bruce, A.C.A., a1962; 74 Clarendon Road, Norwich, NOR42F.

Annison, Raymond, A.C.A., a1962; 6 Wolseley Terrace, Sunderland

Archer, John Allerton, B.A.(ECON.), A.C.A., a1962; 50 St Peg

Lane, Cleckheaton, Yorks. Archer, William Richard Valentine, A.C.A., a1962; Ashtead

Cottage, Leys Road, Oxshott, Surrey.

Armstrong, David Peter, A.C.A., a1962; 7 Webster Crescent, Currock, Carlisle. Arnold, Arthur Jeremy, A.C.A., a1962; 'Cottawight', Great

Wakering, Essex.

Aruliah, Thurairatnam, A.C.A., a1962; 216 Archway Road, London N6.

Arundale, Gordon, A.C.A., a1962; 43 Willow Road, Solihull,

Warwicks. Ashby, Norman Charles, A.C.A., a1962; 1 Cawdor Crescent,

Hanwell, London W7. Ashiq, Michael Irfan, A.C.A., a1962; 'Kewense', Winder-

mere Road, Lightwater, Surrey. Ashman, John William, M.A., A.C.A., a1962; 50 Queensborough Terrace, London W2.

Ashworth, Colin, A.C.A., a1962; 6 Deneside Crescent,

Hazel Grove, Stockport. Aslam, Mohammad, A.C.A., a1962; 35 St George's Road,

London NW11.

Atkin, Royston Henry, A.C.A., a1962; 15 Brook Willow Road, Hayley Green, Halesowen, Birmingham.

Atkins, Richard Farquhar, A.C.A., a1962; 'Ayrton', Oak Road, Cobham, Surrey.

Ayres, (Mrs) Rosemary Anne, B.SC. (ECON.), A.C.A., a1962; 27 Whitehill Road, Crayford, Kent.

Bagot, David William, B.A., A.C.A., a1962; 11 Aberdare Gardens, London NW6.

Baker, Jeffrey Edgar, A.C.A., a1962; 58 London Road, Forest Hill, London SE23.

Baker, Keith George, A.C.A., a1962; 11 Love Lane, Cheam,

Ball, David William, A.C.A., a1962; 1 Harding's Knap, Upper Goosehill Farm, Hanbury, new Droitwich, Worcs. Balmforth, Keith, A.C.A., a1962; 15 Acre Drive, Eccleshill,

Bradford 2. Bambrough, Roger Arthur, A.C.A., a1962; 72 Cornwall

Gardens, London SW7. Barber, David Anthony, A.C.A., a1962; 16 Malcolm Court,

Marsh Lane, Stanmore, Middx. Bardsley, Vernon Roy, A.C.A., a1962; Flat 2, The Avenue,

Collingham, Wetherby, Yorks.
Barker, Nigel Davidson, A.C.A., a1962; 146 Elmsleigh Drive, Leigh-on-Sea, Essex.

Barlow, Stanley Lyon, A.C.A., a1962; 90 Royal Avenue, Onchan, Douglas, I.o.M.

Barnard, (Miss) Rita Blanche, A.C.A., a1962; 229 West Street, Fareham, Hants.

Barnes, Clive Leslie, A.C.A., a1962; Hunters Hill, Claverdon, Warwick.

§Barnes, Geoffrey Graham, A.S.A.A., a1962; 182 Evans Road, Durban, Natal, South Africa.

Barrow, David, A.C.A., a1962; 96 Green Park Road, Skircoat Green, Halifax.

Barton, Jeremy Gordon, A.C.A., a1962; Bellmans, Stock, near Ingatestone, Essex.

Basterfield, Brian Roy, A.C.A., a1962; 1 Manor Abbey Road, Halesowen, Birmingham.

Bates, David George, A.C.A., a1962; 80 Windsor Drive, East Barnet, Herts.

Batty, Collin Martin, A.C.A., a1962; 75 Carrwood, Hale Barns, Cheshire.

Beauclerk, Murray de Vere, A.C.A., a1962; 57 Oakley Street, London SW3.

Beavis, Michael John, A.C.A., a1962; 17 Hill House Road, London SW16.

Becker, Simon Christopher, A.C.A., a1962; 19 Westgate Terrace, London SW10.

Beckett, David Charles, A.C.A., a1962; 12 Peckham High Street, London SE15.
Beeny, David John, A.C.A., a1962; 18 Bloxham Road,

Banbury, Oxon.

Beirne, John, A.C.A., a1962; with Kidsons, Taylor & Co, 1 Booth Street, Manchester 2.

Belfield, Richard John, A.C.A., a1962; 38 Wyndale Drive, Failsworth, Manchester.

Belfield, Roy James, A.C.A., a1962; 10 Lavender Road, West Ewell, Epsom, Surrey.

Bell, Brian, A.C.A., 11962; 88 Cyncoed Road, Cardiff. Bell, John Graham Kearton, B.A., A.C.A., 11962; 'Kelmscott', Clare Road, Ystalyfera, Swansea.

Bellamy, Maurice Harold Trevelyan, A.C.A., a1962; 30 Southwest Road, Leytonstone, London E11.

Belshaw, Gordon Richard, B.Sc. (ECON.), A.C.A., a1962; 56 Brisbane Grove, Hartburn, Stockton-on-Tees.

Benge, Roger Brace, A.C.A., a1962; 'Green Lawns', Broad Highway, Cobham, Surrey. Benn, Keith James Franklyn, A.C.A., a1962; 5 Old Park

Grove, Enfield, Middx. Berry, Ian Robert, A.C.A., a1962; 1 Marion Close, Bushey,

Biggs, Anthony Gerald, A.C.A., a1962; 363 Warwick Road, Carlisle.

Billimoria, Jemshed Homi, B.Sc. (ECON.), A.C.A., a1962; 21<sup>1</sup> Clifford Avenue, Colpetty, Colombo 7, Ceylon. Binmore, John Simpson, A.C.A., a1962; 126 Duffield Road,

Little Eaton, Derbyshire.

Blird, Barrie John, A.S.A.A., a1962; 4 Hawkwell Cottages, Pembury, Tunbridge Wells, Kent.
Bishop, John William, B.S. (ECON.), A.C.A., a1962; 12

Carlyle Avenue, Willesden, London NW10.

Blackmore, Donald, A.C.A., a1962; 105 Knowsley Lane, Huyton, near Liverpool.

Blackmore, Richard James, B.A., A.C.A., a1962; 15 Spring Avenue, Weymouth, Dorset.
Blakeborough, David Charles, A.C.A., a1962; 15 Emsworth

Road, Barkingside, Ilford.

Bligh, Peter Robin, A.C.A., a1962; 94 Wolsey Road, Moor Park, Northwood, Middx.

Bodlender, Jonathan Andrew, B.SC. (ECON.), A.C.A., a1962; 9 Shelton House, 181 Sloane Street, London SW1.

Bodoano, Robert Archer, A.C.A., a1962; Highfield, Harvington, near Kidderminster, Worcs.

Bolton, Roland John, A.C.A., a1962; 'The Mount', Broomfield

Road, Bexleyheath, Kent.

Boon, Alfred Brian, A.C.A., a1962; 20 Ernsford Avenue, Aldermoor Lane, Lower Stoke, Coventry.

§Booth, Edward Lawrence, A.S.A.A., a1962; 7 Livingstone Court, 28 4th Street, Parkhurst, Johannesburg. Borneman, Ronald Graham, B.A., A.C.A., a1962; 'Hazelwood',

South Ridge, St George's Hill, Weybridge, Surrey. Boschi, Nigel Guy James, A.C.A., a1962; 2 Parkfield, Osterley Road, Isleworth, Middx.

Bottomley, David Hugh, A.C.A., a1962; 39 Ingatestone Road, Woodford Green, Essex.

Bottomley, Terence, A.C.A., a1962; 15 John Street, Lane Head, Brighouse, Yorks.

Bowden, Peter Rowley, A.C.A., a1962; 'Furness', Heysoms Avenue, Greenbank, Northwich, Cheshire.

Bowen, John Harry, A.C.A., a1962; 19 Grosvenor Road, Watford, Herts.

Bowen, William John, A.C.A., a1962; 116 Paper Mill Cottages, Alveley, Bridgnorth, Shropshire.
Bower, Christopher David, A.C.A., a1962; 39 Netherlands Avenue, Odsal, Bradford 6.

Boyer, John Aloysius George, A.C.A., a1962; 210 Lincoln Road, Olton, Solihull, Warwicks.

Bradford, Michael, A.C.A., a1962; 16 Copse Crescent, Pelsall, Walsall.

Bradley, George Peter, A.C.A., a1962; Garth Flat, Woodbourne, 86/88 Brooklands Road, Sale, Cheshire.

Bradshaw, Ivor Rennie, A.C.A., a1962; 409 Manchester

Road, Accrington. Braide, William Gordon, A.C.A., a1962; 37 Blakes Lane, New Malden, Surrey.

Branch, Nicholas Michael, A.C.A., a1962; with Binder, Hamlyn & Co, 121 Queen Victoria Street, London EC4.

Brayshaw, Robert Edward, A.C.A., a1962; 'Cuilaluinn', Bonne Nuit, St John, Jersey, C.I. Brindley, Gordon Thomas, A.C.A., a1962; I Windsor Drive,

Solihull, Warwicks.

Broadley, Graham John, A.C.A., a1962; 52 Woodside Court, Woodside Road, Portswood, Southampton.

Broderick, John Michael, A.C.A., a1962; 192 Boothferry Road, Goole, Yorks.

Bromwich, Michael Trevor, A.C.A., a1962; Glebe Cottage, Stockerston, near Uppingham, Rutland.

Broster, John Harvey, A.C.A., a1962; 37 Lytham Road, Fulwood, Preston, Lancs.

Brown, Charles Roy, A.C.A., a1962; 1 First Avenue, Old

Trafford, Manchester 16. Brown, Geoffrey Harold, A.C.A., a1962; 69B Woodhouse Road, London N12.

Brown, James Graham, A.C.A., a1962; 'Huskards', Stratford

Road, Watford, Herts. Brown, John Michael, A.C.A., a1962; 28 St Andrew's

Avenue, Colchester, Essex. Bryan, Albert Henry Patrick, A.C.A., a1962; 122 Mildmay

Road, Romford, Essex. Buchanan, Alistair John, B.A., A.C.A., a1962; 34 Paultons

Square, London SW3. Buck, Robert Irving, A.C.A., a1962; High Lane, Firs Lane,

Appleton, Warrington.

Buckton, Roger Malcolm, A.C.A., a1962; 23 Lower Hill Road, Epsom, Surrey.

Bullman, Derek John, A.C.A., a1962; 23 The Drive, Westcliff-on-Sea, Essex.

Burnstead, Eric Leonard, A.C.A., a1962; 8 Crown Road, Twickenham, Middx.

Burton, Donald Gerrard, A.C.A., a1962; 'Hollybank', Woodley, near Stockport.

Bussin, (Miss) Sheila Estelle, A.C.A., a1962; 2 Alison Road, Aldershot, Hants.

Butterworth, Frederick Ernest, A.C.A., a1962; 'Wyngate', Rockfield Drive, Llandudno.

Butterworth, Maurice Stewart, A.C.A., a1962; 1 Warwick Dene, Ealing Common, London W5.

Caddy, Jonathan, A.C.A., a1962; 28 Pigeon Lane, Fornham All Saints, Bury St Edmunds, Suffolk.

Caidan, Roger Paul, A.C.A., a1962; 4 Westminster Court, Aberdeen Place, London NW8.

¶Cain, David Bertram, A.C.A., a1962; D. B. Cain & Co, 33

Totnes Walk, Springfield, Chelmsford, Essex. Cakebread, Norman Francis, A.C.A., a1962; 15 Pine Crescent, High Ridings, Hutton, Essex.

Calvert, Terence George, A.C.A., a1962; 22 Caswell Avenue, Mumbles, Swansea.

Campbell, Alister Marshall, A.C.A., a1962; 104 Warwick Road, Carlisle.

Cardew, Reginald Michael Douglas, B.A., A.C.A., a1962; Flat 2, No. 9 Pond Road, Blackheath, London SE3.

Carter, Brian Edward Michael, A.C.A., a1962; 1 Laurel Cottage, Chelwood Gate, Haywards Heath, Sussex.

Cartwright, John Martyn, A.C.A., a1962; 60 Littlemoor Road, Weymouth, Dorset.

Chadder, Roger Vivyan James, B.A., A.C.A., a1962; 57 Thornton Avenue, Streatham Hill, London SW2.

Chadwick, Harry, A.C.A., a1962; 257 Altrincham Road, Manchester 22.

Chalkley, Christopher John, A.C.A., a1962; 78 Fambridge Road, Maldon, Essex.

Chambers, Richard Eastwood, A.C.A., a1962; 29 Zulla Road, Mapperley Park, Nottingham.

Chapman, (Miss) Rosemary Anne, A.C.A., a1962; 44 Albion

Road, Sutton, Surrey. Charlton, David Hugh, A.C.A., a1962; Bridge House, Newbrough, Northumberland.

Chaudhry, Devender Kumar, A.C.A., a1962; Price Water-house & Co, Kungsgatan, 28 Stockholm C, Sweden.

Chedzey, Alan Christopher, A.C.A., a1962; 24 Walrow Road, Highbridge, Somerset.

Cheetham, Barrington, A.C.A., a1962; 11 Sallows Road, Peterborough.

Chetwynd, Richard Walter, A.C.A., a1962; 3 Cadogan Square, London SW1.

Child, Joseph Herbert, A.C.A., a1962; 277 Dover House

Road, London SW15. Churchill, Cyril Robert William, A.C.A., a1962; 22 St Mary's Road, Merton Park, London SW19.

Clarke, Alan, A.C.A., a1962; 71 Higheliffe Road, Sheffield 11. Clarke, Brian, A.C.A., a1962; 5 Broomwood Gardens, Brentwood, Essex.

Clarke, Grahame Anthony, B.Sc. (ECON.), A.C.A., a1962; 4
Beck Way, Beckenham, Kent.

Clarke, James Maxwell, B.A., A.C.A., a1962; 38 Falcondale Road, Westbury on Trym, Bristol.

Clarke, John Hubert, A.C.A., a1962; 462 Gloucester Road, Horfield, Bristol 7.

Clark-Maxwell, John William, B.A., A.C.A., a1962; 48 Cleveland Square, London W2.

Clarkson, Tomas Howard, A.C.A., a1962; Magnolia Cottage, Brook Street, Wymeswold, Loughborough, Leics.

Clayton, Richard Alexander, A.C.A., a1962; 48 Mellor Road, New Mills, near Stockport.

Clitherow, Christopher, A.C.A., a1962; 79 Underley Street, Liverpool 7.

Close, Donald, A.C.A., a1962; 1 Severalls Close, Wallingford, Berks.

§Clutterbuck, Peter Stainton, A.S.A.A., a1962; Rue Du Midi 10, Vevey, Switzerland.

Cobley, Bryan Anthony, A.C.A., a1962; 2 Laycock Avenue, Melton Mowbray, Leics.

Cockayne, John James, A.C.A., a1962; Flat 11, St Mansions, Cheyne Gardens, Chelsea, London SW5. St Loo

Cohen, Arnold Judah, A.C.A., a1962; 19 Brook Lodge, North Circular Road, London NW11. Cohen, Michael, B.Sc. (ECON.), A.C.A., a1962; 29 Windsor

Avenue, Edgware, Middx. Cohn, Max Raphael, B.Sc. (ECON.), A.C.A., a1962; 208 Lordship Road, London N16.

Cole, Anthony Edward, A.C.A., a1962; 'Courtwood',

Thackeray Road, Clevedon, Somerset.

Cole, Malcolm, A.C.A., a1962; 35 Seagrave Drive, Oadby,

Coleman, Anthony Brian Wright, A.C.A., a1962; 12 Broadfield Way, Buckhurst Hill, Essex.

Coleman, Nicholas John, A.C.A., a1962; 'Gavrelle', West End Lane, Pinner, Middx.

Coles, Robert Barton, A.C.A., a1962; 'Oak End', Kingswood Road, Tunbridge Wells.

Colledge, William John Baker, A.C.A., a1962; 'Lismoor', Rye Hill Avenue, Brookside, Chesterfield, Derbyshire. Colley, Alan Richard, B.A., A.C.A., a1962; 'Aynsley', Seaway

Lane, Torquay.

Collier, Nicholas Michael, A.C.A., a1962; 7 Highbury Grange, London N5.

Colling, Thomas Patmore, A.C.A., a1962; 22 Hailsham Terrace, Edmonton, London N18.

Collinson, Peter Anthony, B.A.(ECON.), A.C.A., a1962; 11 Wayside, Sunderland.

Connell, Robert Deane, A.C.A., a1962; 'Hollydene', Prey Heath Close, Mayford, Woking, Surrey.

Connelly, George Owen, A.C.A., a1962; 57 Tetlow Street, Kirkdale, Liverpool 14.

Cooke, Paul Philip, A.C.A., a1962; 14 Northwood Way, Northwood, Middx.

Copley, Wilfred Brian, A.C.A., a1962; 'Sorrelstan', Moorgate, Rotherham, Yorks.

Corker, Eric, B.A.(COM.), A.C.A., a1962; 194 Ashgate Road, Chesterfield, Derbyshire.

Corps, John Edward, A.C.A., a1962; 'Wychmore', Church Brampton, Northampton.

Cottrell, Roger Leslie, A.C.A., a1962; 78 School Road, Moseley, Birmingham 13.

Coulson, James Peter, A.C.A., a1962; 239 Talbot Road,

Newton, Hyde, Cheshire.
Coulston, Peter John, A.C.A., a1962; 138 Leckhampton
Road, Cheltenham, Glos.

Cowper, Ian Rutherford, A.C.A., a1962; 20 Loom Lane, Radlett, Herts.

Crawhall, John Michael, A.C.A., a1962; Birch Hill, Norham, Berwick-on-Tweed, Northumberland.

Creasey, John Stanley, A.C.A., a1962; 22 Netheravon Road, Chiswick, London W4.

Crellin, David, A.C.A., a1962; 76 Ivyfield Road, Erdington, Birmingham 23.

Croft, John Downton, A.C.A., a1962; 'Lisnalee', Woodland Way, Purley, Surrey.

§Crook, Eric, A.S.A.A., a1962; 118 New Bank Road, Black-

Crosby, Gerald, A.C.A., a1962; 873 Holderness Road, Hull. Crossland, Malcolm, A.C.A., a1962; 9 Kelso Road, Leeds 2. Crowther, Trevor Anthony, A.C.A., a1962; 11 Parkfield Avenue, North Ferriby, Yorks.

Croxton, Geoffrey Richard, B.COM., A.C.A., a1962; Terrills

Farm, Tenbury Wells, Worcs. Cunliffe, Graham Victor, A.C.A., a1962; 93 Mollands Lane, South Ockenden, Essex.

Curtis, William Joseph, A.C.A., a1962; 2 First Avenue, Sherwood Rise, Nottingham.

Cusk, Peter John, B.COM., A.C.A., a1962; 20 The Avenue, Radlett, Herts.

Cuthbert-Smith, Peter Lawrence, B.A., A.C.A., a1962; 37 Parliament Hill, London NW3.

Dack, Derek, A.C.A., a1962; 3 Cook's Green, Doddington, March, Cambs.

Dain, John Stewart, A.C.A., a1962; 27 Victoria Road, Acocks Green, Birmingham 27.
Dallow, Arthur Thomas, A.C.A., a1962; 310 Stafford Road,

Oxley, Wolverhampton.
Dalton, Irwin, A.C.A., a1962; 53 Moseley Wood Crescent,
Cookridge, Leeds 16.

Daly, Peter Albert, A.C.A., a1962; 3 Fraser Road, Perivale, Greenford, Middx.

Das, Sugata Kumar, A.C.A., a1962; 184 Goldhurst Terrace, London NW6.

Dastoor, Vistasp Kaikhushroo, A.C.A., a1962; c/o British Council Residence, 1 Hans Crescent, Knightsbridge, London SW1.

Davey, Brian Charles, A.C.A., a1962; 12 Graham Avenue, St Austell, Cornwall.

Davies, Basil Peter Ridley, B.A., A.C.A., a1962; 30 Llatrisant Road, Pontyclun, Glam.

Davies, David Lyn, B.A., A.C.A., a1962; 'Woodlands', Duffryn Road, Caerau, Bridgend, Glam.

Davies, Terence Vaughan, B.SC.(ECON.), A.C.A., a1962; 70 Cornwall Gardens, London SW7.

Davies, Walter Bramwell, A.C.A., a1962; 7 Yew Grove, London NW2.

Davis, Brian Alan, A.C.A., a1962; 17 Bourne Hall, High Street, Bushey, Herts.

Davis, John Michael Gronow, A.C.A., a1962; Woodcock Spinney, Felbridge, East Grinstead, Sussex.

Dawes, Maurice Stephen George, A.C.A., a1962; 49 Laines Road, Steyning, Sussex.

Dean, Gordon, A.C.A., a1962; 36 Campbell Road, Caterham. Surrey.

De Mesquita, Vivian Joseph Gomes, A.C.A., a1962; 48 Canons Drive, Edgware, Middx.

Denman, John Hayward, B.A., A.C.A., a1962; Tudor Cottage, Wheeler Lane, Witley, Godalming, Surrey.

§Dennett, David Edward, A.S.A.A., a1962; with P. A. Bridger & Co, P.O. Box 148, Salisbury, Southern Rhodesia. Densem, James Colin, A.C.A., a1962; 31 Rope Lane, Wistaston, Crewe.

De Silva, Pandigamage Don Upali, B.COM., A.C.A., a1962; Accountant, F.A.O. United Nations, Viale delle Terme di Caracalla, Rome.

Dillsworth, Raymond Augustine Hilary, A.C.A., a1962; 85 Carysford Road, Stoke Newington, London N16.

§Dixon, Clive Sidney, A.S.A.A., a1962; 51 Inverness Road, Northfield, Birmingham 31.

Dolly, Brendan Patrick, A.C.A., a1962; 2 Barr Green, Penn Fields, Wolverhampton, Staffs.

Donovan, Charles Desmond, A.C.A., a1962; 45 Hainault Road, Chadwell Heath, Romford, Essex.

Downer, Michael, A.C.A., a1962; 96 Jackson Road, Bromley,

Drewell, Alan, A.C.A., a1962; 21 Berkeley Street, Leeds 8. Dubuisson, Peter William Grostete, A.C.A., a1962; Flat 7, Circus Lodge, Circus Road, St John's Wood, London NW8.

Duckett, Jeremy Ernest, A.C.A., a1962; 423 Green Lane, Finham, Coventry.

Dugard, Christopher Richard, A.C.A., a1962; 72 Lucknow Avenue, Mapperley Park, Nottingham.

Dunbar, David Randolph Michell, A.C.A., a1962; The Georgian House, Bromley Lane, Chislehurst, Kent. Dunham, Geoffrey John, A.C.A., a1962; 11 Lime Tree

Grove, Shirley, Croydon, Surrey.

Dyson, John Duncan, M.A., A.C.A., a1962; The Garden Flat, 45 Maresfield Gardens, Hampstead, London NW3.

Eaton, Anthony Francis, A.C.A., a1962; 116 Clive Road, Enfield, Middx. Edwards, Anthony, A.C.A., a1962; 7 Hillside Crescent,

Uplands, Swansea. Edwards, Eric Warren Goddard, A.C.A., a1962; 28 South

Drive, Ruislip, Middx. Edwards, Jeremy Charles, A.C.A., a1962; "The Spinney', Whiteleaf, Princes Risborough, Bucks.

Edwards, William Randall, A.C.A., a1962; 258 Heston Road,

Heston, Middx. Elles-Hill, Woodford John, A.C.A., a1962; 22 Stanley

Crescent, London Wii. Epps, John Edward, A.C.A., a1962; 48 Square Hill Road,

Maidstone, Kent. Epstein, Anthony John, A.C.A., a1962; 33 Brookdale,

London N11. Essex, Barrington David, A.C.A., a1962; 15 Elsworthy Terrace, Hampstead, London NW3.

Etchell, Roy, A.C.A., a1962; 24 Briarwood Road, London

SW4 Etheridge, Neville, A.C.A., a1962; 19 Horncastle Road,

Moston, Manchester 10.

Evans, Barry John, A.C.A., a1962; 'Grindelwald', Stoneleigh Road, Gibbet Hill, near Coventry.

Evans, David Hugh Birkett, A.C.A., a1962; 'Bryn Dwr', Gresford, Denbighshire.

Evans, John Terence, A.C.A., a1962; 7 Harry Street, Morriston, Swansea.

Evans, Terence Charles, A.C.A., a1962; 7 Boundary Court, Brunswick Park Road, London NII.

Evenden, Ian Stuart, A.C.A., a1962; 730 Holderness Road, Hull.

Everatt, Terence George, A.C.A., a1962; 'Dale Brow', Prestbury, Cheshire.

a1962; Eweka, Adeyemi Osasinmwioba, A.C.A., Banner, Mounsey & Co, 126/128 Broad Street, Lagos, Nigeria.

Factor, David, A.C.A., a1962; 69 Station Road, Port Talbot.

Faiers, Peter Charles, A.C.A., a1962; 52 Cecil Avenue, Ardleigh Green, Hornchurch, Essex.

Farmer, John Davenport, A.C.A., a1962; 181 Forest Road,

Coalville, Leics.

Farnill, Frank, A.C.A., a1962; 226 Greenwood Avenue, Hull. Farrar, Robert Graham, A.C.A., a1962; 23 Jillcot Road, Sheldon, Solihull, Warwicks.

Farrow, Gerald, A.C.A., a1962; 22 Balmoral Avenue,

Spalding, Lines.
Faulkner, Noel Samuel Constantine, A.C.A., a1962; 5 Carisbrooke Drive, Mapperley Park, Nottingham.

Fea, Richard William Brooke, B.A., A.C.A., a1962; 25 Bramham Gardens, London SW5.

Featherstone, Peter Lyndon, A.C.A., a1962; 5 Constable Drive, Littleover, Derby.

Fellows, Roger David, A.C.A., a1962; 19 Goldthorn Avenue, Penn, Wolverhampton.

Fermor, Francis Hatton, A.C.A., a1962; 1A Lynwood Road,

Ealing, London W5. Field, Derek Bernard Melvin, A.C.A., a1962; Flat 1, 146

Great Portland Street, London WI. Field, Terence Herbert Ernest, B.SC. (ECON.), A.C.A., a1962;

c/o Neatawear Ltd, 12/14 Clipstone Street, London WI. Fifield, Lionel Edward, A.C.A., a1962; 15 Townsend Avenue, Southgate, London N14.

Firman, Albert Henry, A.C.A., a1962; 12 Fairford Grove, Kennington, London SE11.
Fisher, Joseph Timothy, A.C.A., a1962; 7 Edwina Close,

Bitterne, Southampton.

Forster, John Michael, B.COM., A.C.A., a1962; Lea House, Wheathampstead, Herts.

Forster, Ronald John, M.A., A.C.A., a1962; 'The Haven',

College Avenue, Maidstone, Kent. Forsyth, Neil Cathcart, A.C.A., a1962; 360 Duffield Road,

Darley Abbey, Derby. Foss, Christopher John, A.C.A., Ilsham Marine Drive, Torquay. A.C.A., a1962; Hillway Close,

Foster, Brian Thomas Edward, A.C.A., a1962; 109 Parsonage

Lane, Enfield, Middx. Foster, Guy Rigby, A.C.A., a1962; 'Willow Lawn', Danescourt Road, Tettenhall, Wolverhampton.

Foster, Michael John, A.C.A., a1962; 21A Upper Park Road,

London NW3. Fowler, Brian George, A.C.A., a1962; 5 Hurford Place,

Cyncoed, Cardiff. Foxley, Malcolm Joseph Charles, A.C.A., a1962; 29 Grantham

Road, Luton, Beds. Francis, Philip Ivor, A.C.A., a1962; 2 Menin Drive, Baildon,

Shipley, Yorks. Freedman, Michael, B.COM., A.C.A., a ; I Sandhill Grove, Leeds 17.

Freeman, William Rodney, B.A., A.C.A., a1962; 49 Graham

Road, Ipswich.
French, Peter John, A.C.A., a1962; 40 Ruskin Avenue,

Acklam, Middlesbrough. Friend, Henry John, A.C.A., a1962; 36 Connaught Crescent, Brookwood, Woking, Surrey.

Gait, Christopher Doman, A.C.A., a1962; 14 Brockley Close, Stanmore, Middx.

Gallagher, James, M.A., A.C.A., a1962; 231 Green Lane, Bolton.

Gamble, Richard Arthur, A.C.A., a1962; 71 Wilverley Crescent, New Malden, Surrey.

Garbutt, Nicholas Thrale, A.C.A., a1962; 31 Montagu Avenue, Gosforth, Newcastle upon Tyne 3.

Gardiner, Richard Jolyon, A.C.A., a1962; The Old Weavers House, Burleigh, Stroud, Glos.

Garnham, Gerald William, A.C.A., a1962; 9 Blenheim Gardens, Wembley, Middx.

Garrett, John Edward, A.C.A., a1962; 45 Perry's Lane, Wroughton, Swindon, Wilts.

Gazzard, Reginald Michael Duplain, M.A., A.C.A., a1962;

'High Trees', Robinson's Hill, Melbourne, Derbyshire. Gearing, Eric William, A.C.A., a1962; 184 Great Brays, Brays Grove, Harlow, Essex.

Gee, Christopher John, A.C.A., a1962; Ashgrove Court, Akenside Terrace, Jesmond, Newcastle upon Tyne 2. Gellman, Robert David, A.C.A., a1962; 14 Blenheim

Gardens, Wembley, Middx.

Gent, Peter, A.C.A., a1962; 37A South Park Road, Wimbledon, London SW19.

Ghilchik, Anthony Charles, B.A. (COM.), A.C.A., a1962; 75 Ossulton Way, London N2.

Gibbens, Barnaby John, A.C.A., a Crescent, Maida Hill, London Wo. a1962; 21 Randolph

Gibbs, (Mrs) Barbara, A.C.A., a1962; 7 Harpenden Road, Wanstead, London É12.

Gibson, Garry Rolfe, A.C.A., a1962; 80 Howberry Road,

Canons Park, Edgware, Middx.

Gibson, John Frederick Ogle, B.A., A.C.A., a1962; 44

Hartswood Road, London W12.

Gibson, Malcolm James Brunton, A.C.A., a1962; 16 Knole Way, Sevenoaks, Kent.

Gillings, Bernard, A.C.A., a1962; 128 Gledhow Wood Road, Leeds 8.

Gledson, James Neil, A.C.A., a1962; 47 Moor Crescent, Gosforth, Newcastle upon Tyne 3.

Goadby, Roger, A.C.A., a1962; 5 Cleveland Road, Hinckley, Leics.

Godbehere, Anthony Keith, A.C.A., a1962; 35 Elmore Road, Sheffield 10.

Godden, Nicholas Roger Bromfield, B.A., A.C.A., a1962; Stane House, Bignor, Pulborough, Sussex.

Gold, Henry, A.C.A., a1962; I Peter Avenue, Willesden, London NW10.

Gooding, Roger Kenneth, A.C.A., a1962; 'Crawley', Westgate Lane, Long Melford, near Sudbury, Suffolk

Goodman, Derek, A.C.A., a1962; 72 The Fairway, Palmers Green, London N13.

Goosey, Geoffrey Trevor, A.C.A., a1962; 99 Priory Road, London NW6.

Gordon, Charles Neville, A.C.A., a1962; c/o Manganese Mines Management Ltd, P.O. Box 368, 30 Main Street, Georgetown, British Guiana.

Gordon, Keith William, A.C.A., a1962; 103 Broadhurst Gardens, London NW16.

Gordon, Sidney, LL.B., A.C.A., a1962; Flat 32, 21 Seymour Street, London Wr.

Gorst, William, A.C.A., a1962; 25 Caton Green, Old Road, Brookhouse, near Lancaster.

Gough, Lawrence John, A.C.A., a1962; 11 Earlswood Road, Evington, Leicester.

Gough, Michael John, A.C.A., a1962; 'Friarswood', West End Lane, Esher, Surrey.

Govier, John Meldon, A.C.A., a1962; 'Gulls', The Esplanade, Sidmouth, Devon.

Gowshall, John Brian, A.C.A., a1962; 6 Bedford House, The Farmlands, Mandeville Road, Northolt, Middx.

Gracey, John Gerald Anthony, A.C.A., a1962; 8 Clarendon Place, Leamington Spa, Warwicks.

Grant, Ronald, A.C.A., a1962; 17 Alexandra Road, Horsforth, Leeds.

Gray, Ian Peter William, A.C.A., a1962; 14 Hawkswell Gardens, King's Cross Road, Oxford.

Gray, Peter Leslie Montgomery, A.C.A., a1962; 1 Arundel House, Heathfield Road, Croydon, Surrey.

Grays, Frederick Louis, A.C.A., a1962; 6 Park Way, Friern Barnet, London N20.

Green, Malcolm Heslop, A.C.A., a1962; 5 Parkway, Gidea Park, Romford, Essex.

Green, Michael Lawrence, B.A.(COM.), A.C.A., a1962; 17 Ringley Road, Whitefield, Lancs.

Greenaway, Brian Hedley, A.C.A., a1962; 20 Salisbury Road, Cosham, Portsmouth.

Greener, Hugh Thornton, A.C.A., a1962; School House, Caerleon, Newport, Mon.

Gregory, Richard Alan, A.C.A., a1962; The Grange, Weston Favell, Northampton.

Grimwade, David Robert, A.C.A., a1962; 32 Hollybush Lane, Burghfield Common, Reading, Berks.

Grinyer, John Raymond, A.C.A., a1962; 48 Suttons Avenue, Hornchurch, Essex.

Grisley, William Ernest, A.C.A., a1962; 14 Manor Place, Southwark, London SÉ17.

Grist, Richard Talbot, A.C.A., a1962; 18 Great Bounds Drive, Southborough, Tunbridge Wells, Kent.

Groves, Jeremy Bernard, A.C.A., a1962; 34 Falkland Road, Southport, Lancs.

Growcott, Thomas Ernest, A.C.A., a1962; with Deloitte, Plender, Griffiths & Co, 76 Cross Street, Manchester 2. Gruncell, Frederick Ernest Joseph, A.C.A., a1962; 15 Wilbury Way, Edmonton, London N18.

Gunn, John Stuart, A.C.A., a1962; 71 Bassaleg Road, Newport, Mon.

Gupta, Chittajit, A.C.A., a1962; 177 Westmount Road, Eltham Park, London SE9.

Guy, Paul Nelson, A.C.A., a1962; 'Dell View', Westerham Road, Keston Park, Kent.

Haig, George Drummond, A.C.A., a1962; 47 Dalmorton Road, Wallasey, Cheshire.

Hakim, Peter Graham, A.C.A., a1962; 39 Alexandra Road,

Epsom, Surrey. Half, John David, B.Sc. (ECON.), A.C.A., a1962; 12 Gordondale Road, Wimbledon Park, London SW19.

Hall, John Henry, A.C.A., a1962; 80 The Fairway, Greenford, Middx.

Hall, Peter Arthur, A.C.A., a1962; 19 Brompton Avenue,

Liverpool 17. Hamilton, Robert Christopher, A.C.A., a1962; 1 Crawshay

Street, Cardiff. Hannah, David George, A.C.A., a1962; 1 Leicester Road,

Shilton, near Coventry.

Hannigan, Thomas Kevin, A.C.A., a1962; 27 Eastbourne Avenue, London W3. Harding, Michael John, M.A., A.C.A., a1962; 6 Wetherby

Gardens, London SW5. Hardy, Ronald Owen, A.C.A., a1962; 119 Kings Road,

Westcliff-on-Sea, Essex.

Hargreaves, John Leonard, A.C.A., a1962; 'Eversley', Reedley Drive, Burnley.

Harley, Stanley Martin, B.A., A.C.A., a1962; Walnut Cottage, Meriden, near Coventry.
Harper, John, A.C.A., a1962; 32 High Street, Erdington,

Birmingham 23.

Harrison, Adam Chapman, A.C.A., a1962; 'Springfield', Ashbrook Range, Sunderland.

Harrison, Dale Conroy, A.C.A., a1962; 1 Sunnyside Grove, Ashton-under-Lyne, Lancs.

Harrison, Geoffrey, A.C.A., a1962; 28 Northcote Street, Leeds 11.

Hartley, Terence Joseph, A.C.A., a1962; 60 Lees Hall Avenue, Sheffield 8.

Harvey, James Leonard, A.C.A., a1962; 12 Roskear, Camborne, Cornwall.

Hatvany, Paul Imre, A.C.A., a1962; 62 Cadogan Place, London SW1.

Haughton, Jack Graham, A.C.A., a1962; 45 Charles Avenue, Laceby, Grimsby.

Hawkins, Anthony William, A.C.A., a1962; Marine Guest House, Marine Parade, Clevedon, Somerset.

Haworth, Peter Vacy, A.C.A., a1962; 'Brookfield', Storrs Park, Windermere, Westmorland.

Haworth, Timothy Goodier, B.A., A.C.A., a1962; 20 Westbourne Terrace, London W2.

Hayhoe, Alfred James, A.C.A., a1962; 15 Owen Mansions, Queen's Club Gardens, London W14.

Haynes, Roger John, A.C.A., a1962; Lowder Mill, Haslemere, Surrey.

Hays, David Joseph, A.C.A., a1962; 23B Kingsland Road, Boxmoor, Herts.

Healey, Michael Anthony, A.C.A., a1962; 10 Studley Drive, Redbridge, Ilford, Essex.

Henry, Anthony Thomas, B.Sc. (ECON.), A.C.A., a1962; c/o Dr Meiler, 5 Elsworthy Road, London WC2.

Henty, Anthony Arthur, A.C.A., a1962; 51 Beresford Road, Walthamstow, London E17.

Hepworth, Roger Arthur Ambrose, A.C.A., a1962; Gwith Cottage, Piddington, Bicester, Oxon.

Herberts, Alan Arthur, A.C.A., a1962; 402 Woodborough Road, Nottingham.

Herman, Eric Arnold, A.C.A., a1962; 10 Westmeade, Segley Park, Prestwich, Manchester.

Hesketh, Blair Robert Claude, A.C.A., a1962; Fleet Farm, Gatehouse-of-Fleet, By Castle Douglas, Kirkcudbright. Hey, Brian James Lester, A.C.A., a1962; 124 Huddersfield Road, Dewsbury, Yorks.

Heys, Michael Howard, A.C.A., a1962; 4 Winn Road, Southampton.

Heyworth, Roger Lingard, A.C.A., a1962; 10 Lyme Park, Chinely, Stockport, Cheshire.
Higham, Terence, A.C.A., a1962; 'Silver Birches', Leather-

head Road, Great Bookham, Surrey.

Hill, Leslie Francis, A.C.A., a1962; 17 Almeda Road, St George, Bristol 5.

Hill, Michael George Charles, A.C.A., a1962; 547 Whitton Avenue West, Greenford, Middx. Hines, Anthony James, A.C.A., a1962; Priory Gate, Friar's

Street, Sudbury, Suffolk.

Hodgetts, William Alan, A.C.A., a1962; 6 Horseley Road, Tipton, Staffs.

Holden, Martyn John, A.C.A., a1962; 5 Chestnut Avenue,

Staplehurst, Kent.
Holmes, Nicholas Grey, A.C.A., a1962; 58 Marlborough Court, Pembroke Road, London W8.

Holmes, Stephen Philip, A.C.A., a1962; 228 Middle Drive, Darras Hall, Ponteland, Newcastle upon Tyne.

Hooper, Antony Menear, A.C.A., a1962; 23 Burcote Road, Wandsworth Common, London SW18. Hornor, Harry George, A.C.A., a1962; 5 The Crescent,

Norwich. Horton, Christopher Charles, A.C.A., a1962; 21 Southgate

Road, Sunnybank, Bury, Lancs.

Hosmer, Michael John, A.C.A., 21962; 145 Danebury

Avenue, Rochampton, London SW15.

Howard, David Norman, A.C.A., a1962; 25 Darley Drive, West Derby, Liverpool 12.
Howell, John William, A.C.A., a1962; 18 Harrington

Gardens, London SW7.

Howland, Charles Guest, A.C.A., a1962; 198 Newton Road, Lowton St Marys, near Warrington.

Hudson, John Robin Laverack, A.C.A., a1962; 81 Boroughbridge Road, York.

Hughes, Richard Arthur, A.C.A., a1962; 26 St Annes Road, Headington, Oxford.

Hughes, Robert Anthony Wellesley, A.C.A., a1962; 22 Ronkswood Hill, Worcester.

Humphreys, Brian Joseph, B.Sc. (ECON.), A.C.A., a1962; 5 Corri Avenue, Southgate, London N14.

Hunsley, Eric, A.C.A., a1962; 2 Hope Road, Prestwich, Lancs.

THunt, Anthony Nettleship, A.C.A., a1962; A. J. Connelly & Co, 98 St Martin's Lane, London WC2.

Hutchins, James Michael Jesse, A.C.A., a1962; 8 Barton Avenue, Paignton, South Devon.

Irshad, Hasan, A.C.A., a1962; 1 Penylan Place, Roath Park,

Ives, Geoffrey, A.C.A., a1962; 85 Victoria Road, Driffield, East Yorks.

Jack, Alexander Walter Dallas, A.C.A., a1962; Flat 5, 124. Lord Street, Southport.

Jackson, Anthony Grahame, A.C.A., a1962; 33 West Drive, Harrow Weald, Middx.

Jackson, David, A.C.A., a1962; 5 Oaklands, Farmoor, Oxford.

James, Michael John, A.C.A., a1962; 50 Southwood Road, New Eltham, London SE9.

Jayes, Anthony Peter, A.C.A., a1962; 37 Leamore Lane, Learnore, Walsall, Staffs.

Jeffery, Michael Charles, A.C.A., a1962; 237 Scalby Road, Scarborough.

John, David Stradling, B.A., A.C.A., a1962; 6 Tyfica Crescent, Pontypridd, Glam.

Johnson, Alexander James, B.COM., A.C.A., a1962; 18B Denmark Avenue, Wimbledon, London SW19.

Johnson, Arthur David, B.COM., A.C.A., a1962; 53 Pilkington

Avenue, Sutton Coldfield, Warwicks. Johnson, David John Crump, A.C.A., a1962; Beech Tree Cottage, Beech Close, Dunsley, Kinver, Stourbridge, Worcs.

Johnson, David Richard, A.C.A., a1962; 10 Grands Vaux Court, St Saviour, Jersey, C.I.

Johnson, Edwin Colin, B.A., A.C.A., a1962; 158 Cottage Lane,

Ormskirk, Lancs. Jollie, Peter Edward John, A.C.A., a1962; 22 Farrer Road, London N8.

Jones, Cyril Edmund, B.S. (ECON.), A.C.A., a1962; 98A Bustleholme Lane, West Bromwich, Staffs.

Sones, Edgar Rymer, A.S.A.A., a1962; with Price Waterhouse & Co, P.O. Box 9559, Johannesburg.

Jones, Keith Sydney, A.C.A., a1962; 115A New Zealand Avenue, Walton-on-Thames, Surrey.

Jones, Martin Lewis, A.C.A., a1962; 12 Park Avenue, Park Lane, Northgate, Cottingham, East Yorks.

Jones, Michael Frank, A.C.A., a1962; 2 Drury Road, Harrow, Middx.

Jordan, John Philip, B.A.(COM.), A.C.A., a1962; 2 Newton Road, Altrincham, Cheshire.

Jowett, Denis Vernon, B.SC. (ECON.), A.C.A., a1962; 5 Southwick Place, Bournemouth.

Jowett, Jonathan Peter, A.C.A., a1962; 7 Beechnut Lane, Solihull, Warwicks.

Kanter, Cyril, A.C.A., a1962; 34 Wolmer Gardens, Edgware, Middx.

Kay, Alan William, A.C.A., a1962; 6 Tivoli Park Avenue, Westbrook, Margate, Kent.

Kelly, John Terence, A.C.A., a1962; 111 Carr Manor Road, Carr Manor, Leeds 17.

§Kendall, David William, A.S.A.A., a1962; 15 Leigh Heath Court, London Road, Leigh-on-sea, Essex. Kennard, David Terence, A.C.A., a1962; 61 Hindes Road,

Harrow, Middx.

Kennedy, Millar, A.C.A., a1962; 11 Birchtree Avenue, Birstall, Leicester.

Kevan, Denis Macrae, A.C.A., a1962; 58 Bickerton Avenue, Higher Bebington, Wirral, Cheshire.

Khan, Islam Habeeb, A.C.A., a1962; c/o Lloyds Bank Ltd, Victoria Street, Liverpool 2.

Kidby, Cecil Edward, A.C.A., a1962; 10 Warren Lane, Holland, Oxted, Surrey.

Kimber, David Edward, A.C.A., a1962; Flat 5, 52 Westbourne Terrace, London W2. King, Ian Ayliffe, A.C.A., a1962; 'Hoplands', Fiery Hill

Road, Barnt Green, Worcs.
King, Roland Edouard Vincent Michel, A.C.A., a1962; 8
Rosslyn Court, Ornan Road, London NW3.

Kingham, John Albert, A.C.A., a1962; with Peat, Marwick,

Mitchell & Co, 11 Ironmonger Lane, London EC2. Kingsmell, John Christopher, A.C.A., a1962; 223 Moordown, Shooter's Hill, London SE18.

Kington, Nigel Somerley, A.C.A., a1962; 60 Woodcote Hurst, Epsom, Surrey.

Kinning, John, A.C.A., a1962; 51 Rodborough Road, Dorridge, Solihull, Warwicks.

Kirby, John, A.C.A., a1962; 4 Broadway, Hough Green, Widnes, Lancs.

Kirkby, Donald, A.C.A., a1962; 7 Clipston Avenue, Meanwood, Leeds 6.

Kissack, Paul Richard, B.A.(COM.), A.C.A., a1962; 163 Cheadle Old Road, Cheadle Heath, Cheshire.

Kitson, Robert John, A.C.A., a1962; 132 Ashby Road, Hinckley, Leics.

Knight, Michael John, A.C.A., a1962; 16 Lancaster Court, Banstead, Surrey

Knight, (Mrs) Patricia Cecilia, A.C.A., a1962; 17 Tadworth Road, Byrook, Kennington, Ashford, Kent.

Knight, Patrick Jennison, A.C.A., a1962; 17 Marlfield Road, Grappenhall, near Warrington, Lancs.

Knowles, Graham Malcolm, A.C.A., a1962; 15 Felden Close, Hatch End, Middx. Kusmirak, Michael Solomon, Ll.B., A.C.A., a1962; 2 Dene

Mansions, London NW6.

Kwan, Robert Chiu Yin, B.A., A.C.A., a1962; 32 Conduit Road, 2nd Floor, Hong Kong.

Lachelin, Thomas Pierre Hilbery, B.A., A.C.A., a1962; 'The

Mere', Rockshaw Road, Merstham, Surrey. Lacon, Paul John, A.C.A., a1962; 42 Copthorne Road, Wolverhampton.

§Lahiri, Chandra Sekhar, A.S.A.A., a1962; with D. P. Chatterjee & Co, 10 Old Post Office Street, Calcutta 1,

Lake, Michael Edward, A.C.A., a1962; 13 Knighton Road, Forest Gate, London E7.

Lane, John Albert, A.C.A., a1962; 11 Lymington Road,

Wallasey, Cheshire. Lane, John Martin, A.C.A., a1962; 125 Parkanaur Avenue,

Thorpe Bay, Southend-on-Sea, Essex. Langley, David John, A.C.A., a1962; 21 Coleman Avenue, Hove 3, Sussex.

Lawrence, Christopher James Le Marchant, A.C.A., a1962; 15 Second Avenue, Hove, Sussex.

Lawson, David Francis, B.A., A.C.A., a1962; "The Mount', Chobham, near Woking, Surrey.

Lawton, Christopher David, A.C.A., a1962; Erlesdene Cottage, Green Walk, Bowdon, Cheshire.

Layzell, Dennis John, A.C.A., a1962; 10 Leslie Gardens, Rayleigh, Essex.

Lazarus, Barrie Jack, A.C.A., a1962; 72 Lewis Flats, Dalston

Lane, London E8. Leake, John David, B.COM., A.C.A., a1962; 43 Boswell Road, Sutton Coldfield, Warwicks.

Lederman, Colin Stuart, A.C.A., a1962; 7 Southfields, Hendon, London NW4. Lee, Peter John, A.C.A., a1962; 237 Mitcham Road, Tooting,

London SW1 Leech, David Edward, A.C.A., a1962; 13 Cassiobury Park

Avenue, Watford. Leggett, Frank Ian, A.C.A., a1962; 15 Woodford Gardens,

Didsbury, Manchester 20. Leigh-Pollitt, Guy Anthony Piers, A.C.A., a1962; 32

Albemarle Road, Beckenham, Kent. Lejeune, Elias Sadi, B.A.(ECON.), A.C.A., a1962; 13 Baron's

Court, Church Lane, London NW9.
Lennard, Edwin Charles, A.C.A., a1962; c/o Rutherford,
McMeekin & Co Ltd, 20 Eastcheap, London EC3.

Lever, Jonathan Braham, LL.B., A.C.A., a1962; 200 Brook-

lands Road, Sale, Cheshire. Levy, Warren Clifford, A.C.A., a1962; 33 Golders Gardens,

London NW11. Lewer, Derek Sharland, A.C.A., a1962; 18 Folly Lane,

Tupsley, Hereford. Lewis, Kenneth Charles, A.C.A., a1962; 9 Melbourne Crescent, West Monkseaton, Northumberland.

Lewis, Michael Ernest George, B.A., A.C.A., a1962; 45 Manor Park, Redland, Bristol 6.

Lewis, Roger, A.C.A., a1962; 164 Ilkeston Road, Stapleford, Notts.

Li, Kwok Ting, B.Sc.(ECON.), A.C.A., a1962; c/o D. Adams, 322 Liverpool Road, Southport, Lancs.

Line, Martin Annesley, A.C.A., a1962; 19 Kensington Mansions, Trebouir Road, London SW5.

Lippa, Colin Michael, A.C.A., a1962; 175 Pitville Avenue, Mossley Hill, Liverpool 18.

Livesley, Robert, B.COM., A.C.A., a1962; 50 Woodville Terrace, Liverpool 6.

Lloyd, Anthony Joseph, A.C.A., a1962; 63 Adeyfield Road, Hemel Hempstead, Herts.

Lloyd, Raymond Francis, A.C.A., a1962; 29 Cromwell Road,

§Lloyd-Jones, David Thomas Evan, A.S.A.A., a1962; 7 Argyle Square, London WC1.

Lock, Cyril John, B.A. (COM.), A.C.A., a1962; 30 Mayflower Avenue, Llanishen, Cardiff.

Locke, Anthony Paul, A.C.A., a1962; Flat J.005 Du Cane Court, Balham High Road, Balham, London SW17.

Lockwood, David William, A.C.A., a1962; 109 Meadowhead Avenue, Sheffield 8.

Lomas, Peter Francis, A.C.A., a1962; 'Norland', Manchester Road, Macclesfield, Cheshire.

Loney, Keith Edward, A.C.A., a1962; 87 Ilchester Road, Yeovil.

Lonnen, John Victor, A.C.A., a1962; 58 Chesterfield Road, West Ewell, Epsom, Surrey.

Love, Robert William, B.Sc.(ECON.), A.C.A., a1962; 2 Yew Tree Lane, Wergs, Wolverhampton.

Lowden, Anthony Gibbon, A.C.A., a1962; 43 Meadway,

Old Southgate, London N14. Lowe, John Patrick Terence, A.C.A., a1962; 8 Linden Court,

Leatherhead, Surrey. Lucas, Antony David, A.C.A., a1962; 53 Binscombe Lane, Farncombe, Godalming, Surrey.

Lueder, John Edward Coltman, LL.B., A.C.A., a1962; 60 Helix Road, London SW2.

McCann, Roger Henry, A.C.A., a1962; 68 Sandfield Road, Headington, Oxford.

McCarthy, Peter Herbert, A.C.A., a1962; 33 Beverley Avenue, Leigh, Lancs.

McDonald, Thomas, A.C.A., a1962; 23 Parliament Terrace, Leeds 12

McDonnell, Michael Joseph, A.C.A., a1962; 5 Croston Street, Hackney, London E8.

McEvoy, Peter Hugh, A.C.A., a1962; 15 Holden Avenue, Bury.

McGaw, George William, A.C.A., a1962; 44 Dilston Road,

Newcastle upon Tyne 4.
MacIver, Lewis Kennedy, A.C.A., a1962; 'Birchwood', Broomway, Weybridge, Surrey.

Macleod, Donald Farquhar, A.C.A., a1962; 68 Hodford Road, London NW11.

McPhail, Matthew Douglas, A.C.A., a1962; 'Shepherds Hill', Bracknell, Berks.

McWhinnie, Colin David, A.C.A., a1962; 'Sunraker', Renney Road, Down Thomas, Plymouth.

Magson, Nicholas John, A.C.A., a1962; 'Cobblestones', Skelton, York.

Malin, Antony, A.C.A., a1962; 68 Great Park Street, Wellingborough, Northants.

Mallinder, Edward James Leslie, A.C.A., a1962; 8 Longfield Avenue, Enfield Wash, Middx.

Martin, John Richard Gardiner, A.C.A., a1962; The Link House, Mornington Road, Woodford Green, Essex.

Masters, Henry John, A.C.A., a1962; 238 Green Street, Enfield, Middx.

Maw, Graham Hamilton, A.C.A., a1962; 18 Queensbury Way, Swanland, North Ferriby, Yorks.

May, Alan Walton, A.C.A., a1962; 'York Lodge', Furzefield Road, Beaconsfield, Bucks.

Mayger, Ian Barclay, A.C.A., a1962; 33 Liverpool Road, Chester.

Meakin, Brian, A.C.A., a1962; 37 Frederick Street, Suttonin-Ashfield, Notts.

Meek, John Edward, A.C.A., a1962; 141 Morrell Avenue, Oxford.

Meggitt, David Keith, A.C.A., a1962; 12A Lillington Avenue, Leamington Spa, Warwicks.

Mehta, Zarin Mehli, A.C.A., a1962; with Frederick B. Smart & Co, 22 Queen Street, London EC4.

Mercer, Henry, A.C.A., a1962; 35 Greywethers Avenue, Swindon, Wilts.

Meredith, Robert William, A.C.A., a1962; 127 Norman Avenue, Nuneaton, Warwicks.

Merrett, Keith James, A.C.A., a1962; 38 Vicarage Road, Strood, Rochester, Kent.

Meston, (Miss) Gillian Margaret, A.C.A., a1962; 12 Laurel Crescent, Woodham, Woking, Surrey.

Metcalfe, David Malcolm, B.COM., A.C.A., a1962; 8 Berkeley Gardens, London W8.

Midwinter, Henry Errol, A.C.A., a1962; 105 Station Road, Didcot, Berks.

Miles, Peter Thomas, A.C.A., a1962; 54 Pritchatts Road, Edgbaston, Birmingham 15.

Mills, Anthony Warwick, A.C.A., a1962; 6 Bellman Avenue, Gravesend, Kent.

Mills, George Mariel Edward, A.C.A., a1962; 174 Ellesmere Road, Pitsmoor, Sheffield 4.

Milston, Jeffrey, A.C.A., a1962; 150 Green Lane, Edgware, Middx.

Mitchell, Michael John, B.A. (COM.), A.C.A., a1962; 28 Weston Park, Thames Ditton, Surrey.

§Mitchell, Norman Frederick, A.S.A.A., a1962; 9 The Gardens, Southwick, Brighton, Sussex.

Mocatta, John Edward Abraham, B.A., A.C.A., a1962; 56 Aberdare Gardens, Hampstead, London NW6.

Moffat, Thomas Morton, A.C.A., a1962; 21 Elmbank Mansions, Barnes, London SW13.

Mollet, Michael Brian Macdonagh, A.C.A., a1962; Rua Almeida Brandao, 3-20-Do, Lisbon 2, Portugal.

Montague, Hugh Clifford, A.C.A., a1962; 8 Underacres Close, Hemel Hempstead, Herts.

Moore, Christopher Alan, A.C.A., a1962; 2 Belvedere Avenue, Harrogate Road, Leeds 17. Moore, Kenneth Joseph, A.C.A., a1962; 48 Beechfield Road,

Calderstones, Liverpool 18.

Moore, Michael Roger, A.C.A., a1962; 95 Blacketts Wood Drive, Chorleywood, Herts.

Morgan, Christopher, B.A., A.C.A., a1962; 24 Greville Park Avenue, Ashtead, Surrey.
Morgan, John Henry, A.C.A., a1962; Paddock Wood,

Wendover, Bucks.

Morrell, Michael Christopher Estcourt, B.A., A.C.A., a1962; 102 Lower Ham Road, Kingston upon Thames, Surrey.

Morris, David Edward Alban, B.A., A.C.A., a1962; Flat 8, 61 Riding House Street, London W1.

Moss, John Newton, A.C.A., a1962; 10 Southbourne Gardens, Lee Green, London SE12.

Moss, Ralph, A.C.A., a1962; 94 Brim Hill, East Finchley, London N2.

Mott, Alan Roger, A.C.A., a1962; 80 Loughborough Road, Brixton, London SW9.

Munir, Mohammad, A.C.A., a1962; 14B Morgah, The Attock Oil Co Ltd, Rawalpindi, West Pakistan.

Munson, Anthony Robert, A.C.A., a1962; 2 Guilters Close, Holland-on-Sea, Essex.

Murray, Donald Richard, A.C.A., a1962; 449 Hagley Road, Edgbaston, Birmingham 17.

Murray, Dudley Herbert Donald, A.C.A., a1962; 34 Heath Road, Clapham, London SW8.

Murray, Michael Ian, A.C.A., a1962; 22 Montclair Drive, Mossley Hill, Liverpool 18.

Murray, Nigel Stuart, A.C.A., a1962; Flat 32, West Point, Hermitage Square, Edgbaston, Birmingham 16.

Myers, Gordon Laurence, A.C.A., a1962; 89 High Street, Hanging Heaton, Batley, Yorks.

Nash, David Percy, A.C.A., a1962; 146 Mandeville Road, Enfield, Middx.

Navesey, Michael Anthony, A.C.A., a1962; 155 Cromwell Road, London SW5. Nesbit, David Norman, A.C.A., a1962; 51 Uxendon Hill,

Wembley Park, Middx.

Nezam, Mirza, A.C.A., a1962; 4 Pilgrim's Lane, Hampstead, London NW3.

Nicholls, Michael Robert Gray, B.A.(ECON.), A.C.A., a1962; The White House, Padbury, Buckingham.

Nicholson, David Brady, A.C.A., a1962; 28 West Common Drive, Lindfield, Haywards Heath, Sussex.

Nicolaou, Antonios, A.C.A., a1962; 49 Langham Road, London N15.

Norris, Brian Geoffrey, A.C.A., a1962; 65 Alexandra Road,

South Shore, Blackpool. North, Barry Edward, A.C.A., a1962; 81 Grantley Street, Mile End, London E1.

North, David Ian, LL.B., A.C.A., a1962; 1 Firs Drive, Leeds Road, Harrogate.

North, Peter Milton, A.C.A., a1962; 420 Idle Road, Bradford 2. Nyman, Edwin Matthew, A.C.A., a1962; 175 Salmon Street, Kingsbury, London NWo.

O'Callaghan, Peter John, A.C.A., a1962; 16 Mulgrave Road, Harrow, Middx.

Oldrey, Arthur David Gerald, A.C.A., a1962; Waterfield Farm, Cold Brayfield, near Olney, Bucks.

Olney, Clive Robert, A.C.A., a1962; 23 St Loye's Road, Heavitree, Exeter.

Onochie, Samuel Chukwuma, A.C.A., a1962; 8 Queen's Road, Worthing, Sussex.

Osborn, David William Thomson, B.A., A.C.A., a1962; 40

Lower Sloane Street, London SW1.

D'Sullivan, Daniel John, A.C.A., a1962; 23 Freegrove Road, Holloway, London N7.

Dury, Brian Robert, A.C.A., a1962; 'Eastfield', Packhorse Road, Gerrards Cross, Bucks.

Oury, Gerald Vivian Libert, A.C.A., a1962; 'Old Chestnut',

Meadway, Esher, Surrey.

Ouston, Michael Christopher Geeve, A.C.A., a1962; 20 The Dell, Woodford Wells, Essex.

Owen, John Kenneth Harcourt, A.C.A., a1962; 75 Kingswood Chase, Leigh-on-Sea, Essex.

Page, Peter Howard, A.C.A., a1962; 222 Banstead Road, Banstead, Surrey.

Palmer, Ian Andrew, A.C.A., a1962; "Thornley', Wade Court, Havant, Hants.

Parkinson, Frank, LL.B., A.C.A., a1962; 106 Bellingham Road, London SE6.

Parr, Kenneth John, A.C.A., a1962; 78 Trealaw Road, Trealaw, Rhondda, Glam.

'arsons, Ian Rexford, A.C.A., a1962; 'Pull Croft', Sutton Courtenay, Abingdon, Berks.

Parton, Kenneth Arthur, A.C.A., a1962; 27 Garden Walk, Bilston, Staffs.

Paton, Duncan Barclay, A.C.A., a1962; 115 Huddersfield Road, Oldham.

'ayton, David, A.C.A., a1962; 49 Shaftesbury Road, Leicester.

'earce, Donald John, A.C.A., a1962; 11 Olinda Road, Stamford Hill, London N16.

'earson, (Miss) Lynda, A.C.A., a1962; 786 McKellar Avenue, Ottawa 3, Ontaria, Canada.

'enfold, Anthony Alexander Fairlie, A.C.A., a1962; 66 St Mary's Mansions, Paddington, London W2.

'eyton, Peter Arthur James, A.C.A., a1962; 171A Elgar Court, Fillabrook Road, Leytonstone, London Err.

'hilpot, Derek Edward, A.C.A., a1962; 126 Gander Green Lane, Sutton, Surrey.

'ickford, Roger, A.C.A., a1962; 28 Parkville Road, Prestwich,

Manchester. 'icton, Brian Leslie, A.C.A., a1962; 5 Cambridge Road,

Watford, Herts. 'ierpoint, Adrian Meredith, A.C.A., a1962; 14 Bodley Road,

New Malden, Surrey igott, Francis John Shilton, A.C.A., a1962; 24 Davenant

Road, Oxford. 'ike, Norman, A.C.A., a1962; 125 Pelham Road, Immingham, Grimsby.

illing, Kenneth, A.C.A., a1962; 63 Stephenson Road, Newton-le-Willows, Lancs.

Pitt, Rowland William Lloyd, A.C.A., a1962; 12 Broad Street, Presteigne, Radnorshire.

Pitt-Payne, Michael George, A.C.A., a1962; 2 Hayes Road, Bromley, Kent.

Porter, Alan Redvers, A.C.A., a1962; 20 Cavendish Gardens, Cranbrook, Ilford, Essex.

Poulsom, John Raymond, A.C.A., a1962; 150 Ivy Road, Bolton.

Powell, Anthony Mark, B.SC.(ECON.), A.C.A., a1962; 148 North Orbital Road, Denham, Uxbridge, Middx.

Powell, John Lawrence, A.C.A., a1962; 328 Harborne Park Road, Harborne, Birmingham 17.

Powley, Anthony Thomas, A.C.A., a1962; 26 Newton Drive, Newton, West Kirby, Wirral, Cheshire.

Preston, Alan, A.C.A., a1962; 49 Crosby Green, West Derby, Liverpool 12.

Price, Brian Derek, A.C.A., a1962; 9 Spencer Road, East

Molesey, Surrey. ritchard, Keith Holmes, A.C.A., a1962; 154 Barlow Moor Pritchard, Road, West Didsbury, Manchester 20.

Pullan, Harry, A.C.A., a1962; 90 Swinnow Road, Bramley, Leeds 13.

Radcliffe, John, A.C.A., a1962; 15 Bryn Terrace, Smith House Lane, Brighouse, Yorks.

Radcliffe, Peter Hirst, A.C.A., a1962; 1 Carr Bridge Drive, Cookridge, Leeds 16.

Rainsford, Frank Christopher, A.C.A., a1962; 597 Burton Road, Littleover, Derby.

Rajpar, Anverali Mohamedali, A.C.A., a1962; P.O. Box 170, Dar-es-Salaam, Tanganyika.

Rambaut, Thomas Arthur, A.C.A., a1962; Nelson House, Wargrave, Berks.

Randeria, Minocher Edulji, A.C.A., a1962; c/o Lloyds Bank Ltd, 46 Victoria Street, London SW1.

Rapazzini, Robert Michael, A.C.A., a1962; 11 Rossdale Road, London SW15.

Ratna, Lalit Kumar, B.COM., A.C.A., a1962; 126 Dora Road, Wimbledon Park, London SW19.

Raven, Peter Leo, A.C.A., a1962; 50 Brooklands Park, Blackheath, London SE3.

Raynor, Hubert George, A.C.A., a1962; 4 Hales House, Alderbrook Road, Balham, London SW12.

Reeves, Clive Michael, A.C.A., a1962; 36 Southover, London N12. Rickless, Victor, A.C.A., a1962; 17 Dovedale Avenue,

Heaton Park, Prestwich, Manchester. Rimington Wilson, Henry Locker, A.C.A., a1962; 'Little

Rowfant', Crawley, Sussex. Riseley, John Eric, A.C.A., a1962; 'Byways', The Ridgeway,

Guildford, Surrey. Ritchie, James Gordon, A.C.A., a1962; 87 Taunton Drive,

Aintree, near Liverpool. Roberts, Anthony Thomas, A.C.A., a1962; 16 Exmouth

Road, Sale, Cheshire. Roberts, Jeremy Christian, B.A., A.C.A., a1962; 'Coopers',

Wartling Hill, near Hailsham, Sussex.

Robinson, Kenneth Anthony Marlow, A.C.A., a1962; 53 Priory Road, West Bridgford, Nottingham.

Robson, Derrick Joseph, A.C.A., a1962; 11 Eastern Way, Ponteland, Northumberland.

Rogers, Robert Victor, A.C.A., a1962; 5 Golf Terrace,

Newquay, Cornwall. Rollason, William Henry, A.C.A., a1962; 12 Clive Road, Balsall Common, Coventry.

Rolph, Anthony Graham Charles, A.C.A., a1962; 22 Orchard Avenue, Worthing, Sussex.

Rose, Robert Howard, A.C.A., a1962; 'Parklane', Maplehurst, near Horsham, Sussex.

Rosenbloom, Samuel Anthony, A.C.A., a1962; 5 Oakfield, Prestwich, Manchester.

Ross, Alexander Michael Murray, A.C.A., a1962 Lansdowne Court, Brighton Road, Purley, Surrey.

Ross, John Alexander, A.C.A., a1962; 13 Corringway, Ealing,

London W5.
Rowe, Keith Frederick Anthony, A.C.A., a1962; Flat 2, 24 Buckhurst Road, Bexhill-on-Sea, Sussex.

Rowland, Michael Louis, A.C.A., a1962; 128 Staines Road, Twickenham, Middx.

Rowlands, Thomas Arthur, A.C.A., a1962; Stanley Cottage, Rake Lane, Wallasey, Cheshire.

Rowson, Richard Michael de Cartaret, A.C.A., a1962; 96 Mysore Road, Battersea, London SW11.

Runton, David Keith, A.C.A., a1962; 'Ploverfield', Southway, Tranmere Park, Guiseley, Yorks.

Russell, Eric Watson, A.C.A., a1962; 14 Hanover Road, Weymouth, Dorset.

Russell, Robin Charles, A.C.A., a1962; 72 Brassey Avenue, Hampden Park, Eastbourne.

Sanger, Kenneth John A.C.A., a1962; Mill House, Ludwell, Shaftesbury, Dorset.

Sargeant, Peter Robert, A.C.A., a1962; 8 Wychwood Avenue, Luton, Beds.

Sargent, Alfred Charles, B.A., A.C.A., a1962; 4 Walnut Tree Close, Guildford, Surrey.

Saunders, Nicholas John, A.C.A., a1962; New Barn Farm, Seer Green, Bucks.

Savile, Derek Wrey, A.C.A., a1962; 'Crossways', Middle Gordon Road, Camberley, Surrey.

Scarborough, Timothy William Walter, A.C.A., Le Closs des Arbres, Augres, Trinity, Jersey, C.I.

Scawn, Michael Vincent, A.C.A., a1962; 366 Liverpool Road, Newcastle, Staffs.

Schanschieff, Simon George, A.C.A., a1962; 1 Park Avenue

South, Northampton. Schmid, Robert Alfred, A.C.A., a1962; 27 Cecil Road, Weston-super-Mare, Somerset.

Schoon, Peter James, A.C.A., a1962; 14 Broadfield Avenue, Poulton-le-Fylde, Blackpool.

Scott, Michael Edward Balliol, A.C.A., a1962; 9 Matheson

Road, London W14. Scourfield, Dennis Hugh, B.A., A.C.A., a1962; 'Peterhouse',

Heywood Lane, Tenby, Pembs. Seale, Alan Jeremy, A.C.A., a1962; School Cottage, Tide-

brook, Wadhurst, Sussex. Seaman, Charles Richard Henry, A.C.A., a1962; 446 Upper

Richmond Road, Putney, London SW15. Searle, James Francis, A.C.A., a1962; 14 Birchington Road,

Hornsey, London N8.

Sebastian, Andrew George, B.Sc. (ECON.), A.C.A., a1962; 20 Cholmeley Park, London N6. Sedley, Douglas Richard, A.C.A., a1962; 57 Abbotshall

Avenue, Southgate, London N14.

Seed, John David, A.C.A., a1962; 34 Kingfisher Court, East Molesey, Surrey.

Shah, Navinchandra Chhaganlal, B.Sc. (ECON.), A.C.A., a1962; 81 George Crescent, Colney Hatch Lane, London Nio. Shaw, Anthony, B.A.(COM.), A.C.A., a1962; 20 Elsham Gardens, Gorton, Manchester 18.

Shaw, Dennis Ian, B.A., A.C.A., a1962; 11 Circular Road, Douglas, I.o.M.

Shaw, Keith Albert, A.C.A., a1962; 38 Overend Road, Gleadless, Sheffield 14.

Sheppard, Leslie Roy, A.C.A., a1962; 25 The Crescent, Egham, Surrey.

Silverthorne, Michael John, A.C.A., a1962; 8 Graham Close, Maidenhead, Berks.

Simpson, Edward Harvey, B.Sc. (ECON.), A.C.A., a1962; 57 The Woodlands, Southgate, London N14.

Skae, John Robin, A.C.A., a1962; 91 Allerton Road, Trentham, Stoke-on-Trent.

Skelding, William Edward, A.C.A., a1962; Palmers Hill, West Hagley, near Stourbridge, Worcs.

Slater, Alan Humphrey Patrick, B.A., A.C.A., a1962; Bridgewater Lodge, Ashridge Park, near Berkhamsted, Herts.

Slater, Peter, A.C.A., a1962; 16 Brooklands Avenue, Seacroft, Leeds 14.

¶Slonims, Aubrey Malcolm, A.C.A., a1962; Malcolm Slonims & Co, 9 Seymour Court, Crest Road, London NW2.

Smith, Alan Neville Cooling, M.A., A.C.A., a1962; Flat 4, 30 Oxford Road, Dewsbury, Yorks.

Smith, Charles Edward, A.C.A., a1962; 'Old Turk's Head', Newport, Brough, East Yorks.

Smith, Dennis Pritchard, A.C.A., a1962; 13 Jubilee Crescent, Port Sunlight, Wirral, Cheshire.

Smith, Derek Albert, A.C.A., a1962; 174 Ravensbourne Avenue, Shortlands, Kent.

Smith, James Colin, A.C.A., a1962; 3 Castlecroft Lane, Compton, Wolverhampton.

Smith, John Cedric, A.C.A., a1962; 14 Hulbert Street, Middleton, near Manchester.

Smith, Kimball Robyn Gordon, A.C.A., a1962; 13 Upper Park, Harlow, Essex.

Smith, Leslie Terry John, A.C.A., a1962; with Silversides, Slack & Barnsley, 44 Bedford Row, London WCr.

Smith, Michael James, A.C.A., a1962; 11 Lincoln Boulevard, Grimsby.

Smith, Roger Stephen, A.C.A., a1962; with Brown, Peet & Tilly, 62 London Wall, London EC2.

Soanes, David Charles James, A.C.A., a1962; 39 Forebury Avenue, Sawbridgeworth, Herts.

Solkhon, John, A.C.A., a1962; 23 Oakfield Gardens, Beckenham, Kent.

Spence, Paul Anthony, A.C.A., a1962; 'Highlands', Bollinway, Hale, Altrincham, Cheshire.

Spofforth, Ian James Richard, A.C.A., a1962; 144 Clifford's Inn, Fetter Lane, London EC4.

Spooner, James Douglas, M.A., A.C.A., a1962; 25 Hyde Park Gardens, London W2.

Spriggs, Harvey John William, A.C.A., a1962; 12 Barnwell Drive, Rushden, Northants.

Squire, Christopher John, B.COM., A.C.A., a1962; Hunters Lodge, Townfield Lane, Mollington, Cheshire.

Squire, Peter John, A.C.A., a1962; 46 The Harebreaks, Watford, Herts.

Stapley, Brian Frederick George, B.A., A.C.A., a1962; 69 Douglas Road, Esher, Surrey.

Steele, Dennis Arthur, A.C.A., a1962; 71 Harold Grove, Leeds 6.

Stevens, Geoffrey Francis, A.C.A., a1962; 47 Park Avenue, Harpenden, Herts.

Stewart, Michael George, A.C.A., a1962; 'Packmans', Faversham, Kent.

Stieber, Anthony David Simeon, B.SC. (BCON.), A.C.A., a1962; 69 Cromwell Road, London SW7.

Stiles, Neville Cutcliffe, A.C.A., a1962; Melbourne Court, 251/253 Cromwell Road, Earl's Court, London SW5.

Stillwell, Michael Ian, A.C.A., a1962; 66 Sherwood Park Road, Sutton, Surrey.

Stirland, Leonard, A.C.A., a1962; 46 Elm Drive, Martonin-Cleveland, Middlesbrough.

Stoddart, Charles Aikman, A.C.A., a1962; Flat 11 Earl's Court, 9 Gervis Road, Bournemouth.

Stokes, Peter Montague, A.C.A., a1962; 36 Alderney Street, London SW1.

Stones, Raymond Ernest, A.C.A., a1962; 23 Fawnbrake Avenue, Herne Hill, London SE24.

Stratford, Dudley Nigel, B.A., A.C.A., a1962; 'Broadlands', Medstead, Alton, Hants.

Styles, Barry John, A.C.A., a1962; 174 Bromley Road, Beckenham, Kent.

Sugden, David Percy, A.C.A., a1962; Bawson Cliffe, Gomersal, near Leeds.

Summerfield, Peter Geoffrey, A.C.A., a1962; 48 Leeland Way, Neasden, London NW10.

- Sunderland, Trevor Dudley Ardern, A.C.A., a1962; 257 Idle Road, Bolton, Bradford 2.
- Sutcliffe, Michael Preston, A.C.A., a1962; 'Nythfa', Brooklands Park, Menston, Ilkley, Yorks.
- Swain, Roger Sidney, A.C.A., a1962; 30 Trentdale Road, Carlton, Notts.
- Swift, John Barry, B.COM., A.C.A., a1962; 75 Scott Road, Sheffield 4.
- Sylvan, Timothy George Neele, A.C.A., a1962; 23 Norfolk Mansions, Prince of Wales Drive, London SW11.
- Symons, Ernest, A.C.A., a1962; 16 Malvern Road, Darnall, Sheffield o.
- Taylor, Charles Maxwell Kirwan, B.A., A.C.A., a1962; 7 Buckingham Court, Kensington Park Road, London WII.
- Taylor, Kenneth John, A.C.A., a1962; 9 Berkeley Court, Baker Street, London NW1.
- Taylor, Michael Burbidge, A.C.A., a1962; 4 The Chestnuts, Walton-on-Thames, Surrey.
- Taylor, Philip Keats, A.C.A., a1962; 257 Bawtry Road, Bessacarr, Doncaster.
- Teare, John Anthony, A.C.A., a1962; 41 Kings Road, Bebington, Wirral, Cheshire.
- Teesdale, Peter, A.C.A., a1962; 64 Leighton Street, Nottingham.
- Terras, Christopher Richard, B.A., A.C.A., a1962; with Arthur Andersen & Co, St Alphage House, 2 Fore Street, London EC2.
- Terry, Michael David, A.C.A., a1962; 16 Sandhurst Place, Harehills, Leeds 8.
- Thom, Paul Ritchie, A.C.A., a1962; 63 Pashley Road, Eastbourne.
- Thomas, Hugh, A.C.A., a1962; 20 Pretoria Road, Streatham, London SW16.
- Thomas, Robert Norman Bartholomay, B.A., A.C.A., a1962; 5 Alyth Road, Bournemouth.
- Thompson, Brian James, A.C.A., a1962; "Trevethyn', Spire Hollin, Glossop, Derbyshire.
- Thomson, David Richmond, M.A., A.C.A., a1962; 47 South Hill Park, London NW3.
- Thornton, Michael, A.C.A., a1962; 50 Fairfield Drive, Tynemouth, Northumberland.
- Thubron, Peter John, A.C.A., a1962; Flat 3, 544 Uxbridge Road, Pinner, Middx.
- Tingle, Arthur John, A.C.A., a1962; 76 St Anne's Road, Headingley, Leeds 6.
- Tiptaft, David Howard Palmer, A.C.A., a1962; Ashcroft House, Wentworth, near Rotherham.
- Titford, Derek Swinden, A.C.A., a1962; 'White Walls', Carbone Hill, Cuffley, Herts.
- Tomlins, Royston John, A.C.A., a1962; 105 Mortlake Road, Kew, Surrey.
- Tomlinson, Anthony Gordon, A.C.A., a1962; Merrywood Corner, Storrington, Sussex.
- Tomlinson, Robert Sykes, B.A., A.C.A., a1962; 69 Roe Green Lane, Hatfield, Herts.
- Townend, Peter, A.C.A., a1962; 7 Dunmore Road, Little Sutton, Wirral, Cheshire.
- Townsend, David Arthur, A.C.A., a1962; 33 Cranley Road, Ilford, Essex.
- Townsley, Joseph, B.COM., A.C.A., a1962; 6 Vicarage Avenue, Cheadle Hulme, Cheadle, Cheshire.
- Travis, Gilbert Wilson, B.A., A.C.A., a1962; 11 Wingfield Road, Gravesend, Kent.
- Tricker, Ralph David, A.C.A., a1962; 56 Wallace Road, Coventry.
- Trickett, Ian David, B.A.(ECON.), A.C.A., a1962; 100 Graham Road, Sheffield 10.
- Turner, Christopher Charles, A.C.A., a1962; 'Commoners', Englefield Green, near Egham, Surrey.
- Turner, David Kingsley, A.C.A., a1962; 149 Holden Road, London N12.

- Twist, John Dominic, A.C.A., a1962; 92 Stafford Road, Bloxwich, Staffs.
- Tyrrell-Evans, Nicholas John Tyrrell, M.A., A.C.A., a1962; Capel End, Capel, Surrey.
- Tysoe, John Jeremy, A.C.A., a1962; Green Lane End, Bevere, Worcester.
- Ullmann, Ronald Manuel, B.SC. (ECON.), A.C.A., a1962; with F. F. Sharles & Co, Portland House, 4 Great Portland Street, London W1.
- Underhill, Roger John, A.C.A., a1962; 8 Camleford Road, Greenbank, Bristol 5.
- Uphill, Terence Edwin, A.C.A., a1962; 2 Curzon Avenue, Hazelmere, High Wycombe, Bucks.
- Urmston, Eric, A.C.A., a1962; 143 Warrington Road, Glazebury, Warrington.
- Vaile, Ian Lawrence Berkeley, A.C.A., a1962; Oakford House, Nether Stowey, Bridgwater, Somerset.
- Vanner, David Reginald, B.A.(COM.), A.C.A., a1962; with Turquand, Youngs & Co, 19 Coleman Street, London EC2.
- Vaughan, Michael Gerald, A.C.A., a1962; 36 Milner Road, Merton Park, London SW19.
- Vaughan, Philip Mulvany, A.C.A., a1962; 16 Grange Road, Bushey, Herts.
- Vickery, Arthur Patrick, B.Sc. (ECON.), A.C.A., a1962; 48 Manor Road, Dorchester, Dorset.
- Vinocourt, Amior, A.C.A., a1962; 19 Essendine Road, London W9.
- Vogel, Isaac, A.C.A., a1962; 2 Marston Road, Salford 7,
- Wade, Geoffrey Victor, A.C.A., a1962; 12 Barnsley Road, Edgbaston, Birmingham 17.
- Wainwright, Brian Walter, A.C.A., a1962; 23 Alderwood Road, Avery Hill, London SE9.
- Wakefield, Edward David, B.COM., A.C.A., a1962; 6 Redhill Crescent, West Ardsley, near Wakefield, Yorks.
- Walkden, George Roger, A.C.A., a1962; 46 Gilnow Road, Bolton.
- Walker, Colin, A.C.A., a1962; 15 Crystal Avenue, The
- Heath, Cardiff. Walker, David William, A.C.A., a1962; 'Oak Lawn', Sandown Road, Esher, Surrey.
- Walker, Peter Jeremy, A.C.A., a1962; 11 Cadogan Square, London SWr.
- Walker, Roderick Anthony, A.C.A., a1962; 72 Wilton Crescent, Upper Shirley, Southampton.
- Wall, John Patrick, B.A., A.C.A., a1962; 'Broad Eaves', Arkley Drive, Arkley, Herts.
- Wallace, Donald John, A.C.A., a1962; 8 Campbell Avenue, Ilford, Essex.
- Walliker, Christopher John, A.C.A., a1962; 31 Edge Hill Court, Edge Hill, Wimbledon, London SW19.
- Walsh, Graham Robert, A.C.A., a1962; 588 Great West Road, Hounslow, Middx.
- Walsh, Peter Banbury, B.A., A.C.A., a1962; 15 The Green, Ewell, Surrey.
- Walters, Robert Michael, M.A., A.C.A., a1962; 31 Harlescott Road, London SE15.
- Walton, Malcolm, A.C.A., a1962; 2 School Houses, off New Hey Road, Salendine Nook, Huddersfield.
- Ward, David Joynson, A.C.A., a1962; 125 Northenden Road, Sale, Cheshire.
- Warhurst, Brian, A.C.A., a1962; 22 Princess Street, Bollington, near Macclesfield, Cheshire.
- Warland, Edward Patrick, A.C.A., a1962; 41 Yoakley Road, Stoke Newington, London N16.
- Warren, John Richard Edward, A.C.A., a1962; 8 Ashworth Mansions, Elgin Avenue, London W9.
- Watkins, Alan Peter, A.C.A., a1962; 28 Tangier Way,
- Burgh Heath, Tadworth, Surrey.

October 20th, 1962

### ACCOUNTANT

Watson, David Arthur, A.C.A., a1962; 197 Danesbury Drive, Acomb, York.

Watson, Édward Raymond, A.C.A., a1962; c/o Monks & Crane Ltd, Garretts Green Lane, Birmingham 33.

Watt, Ian Lind, A.C.A., a1962; 19 Laburnum Gardens, Cranham, Upminster, Essex.

Wax, Robert Jacques, LL.B., A.C.A., a1962; 8 Kenwood Avenue, Hale, Cheshire.

Weare, Clive Edward, A.C.A., a1962; 61 Benedict Street, Glastonbury, Somerset.

Webber, Brian John, B.A., A.C.A., a1962; 213 Whyke Road,

Chichester, Sussex. Weinstein, Anthony Harold, A.C.A., a1962; 160 Mount

Pleasant Road, Tottenham, London N17. Weiss, Howard, Anthony, A.C.A., a1962; 46 Lealand Road, South Tottenham, London N15.

Welch, John Reginald, A.C.A., a1962; 197 Chester Road, Streetly, Sutton Coldfield.

Welton, Philip Alan, A.C.A., a1962; 45 Shannon Road, Crossacres, Manchester 22.

West, Robert Eric Marcus, A.C.A., a1962; 'The Cedars', St Mary's Lane, Louth, Lincs.

Westhead, Alan, A.C.A., a1962; 8 Holbeck Street, Anfield, Liverpool 4.

Weston, Douglas Malcolm, A.C.A., a1962; 75 Woodland Way, Winchmore Hill, London N21.

Westwell, Geoffrey Stuart, A.C.A., a1962; 67 Crosland Road North, St Annes-on-Sea, Lancs.

Weyman, Charles David, B.A., A.C.A., a1962; 2606 McBain Avenue, Vancouver, B.C., Canada.

Whatley, David Vernon, A.C.A., a1962; 26 Wellington

Avenue, Hounslow, Middx. Wheeler, Peter Kenneth, A.C.A., a1962; 233 Anlaby Road,

White, Brian George, A.C.A., a1962; 365 Cooksey Road,

Small Heath, Birmingham 10. White, Keith John, A.C.A., a1962; 39 Mile Oak Road,

Southwick, Sussex. Whitham, Alan Frederick George, A.C.A., a1962; 140

Skircoat Moor Road, Halifax.

Whittam, Ivor Boyd, A.C.A., a1962; 9 Hardy Grove, Worsley, Lancs.

Wick, Derek Anthony, A.C.A., a1962; 13 Plymouth House, East Hill Estate, London SW18.

Wickham, Stanley Terence, A.C.A., a1962; 93 Clive Road, Enfield, Middx.

Wild, Gordon, A.C.A., a1962; 34 Penistone Avenue,

Rochdale, Lancs.
Wild, James David, A.C.A., a1962; 'Craigmore', Coronation Avenue, Heywood, Lancs.

Wilkins, David Ernest, A.C.A., a1962; Flat No. 46, Evenlode Tower, Blackbird Leys Estate, Cowley, Oxford.

Wilkinson, Christopher Martin, B.A., A.C.A., a1962; 8 Ashley Road, Walton-on-Thames, Surrey.

Wilkinson, John Michael, A.C.A., a1962; 4 Stetchworth Road, Walton, near Warrington.

Wilkinson, Michael John, A.C.A., a1962; 56 Arthur Road, Edgbaston, Birmingham 15.

Willers, Geoffrey Alan, A.C.A., a1962; 104 Harlaxton Road, Grantham, Lincs.

Williams, Barry Philip, A.C.A., a1962; 11 Dale Road, Purley, Surrey.

David Wynford, A.C.A., a1962; 'Cortina', Williams, Highfields, Ashtead, Surrey.

Williams, John Gordon, A.C.A., a1962; 97 Allerton Lane, Hateley Heath, West Bromwich, Staffs.

Willingham, David, A.C.A., a1962; 14 Hibbert Street, New Mills, near Stockport, Cheshire.

Wills, Brian, A.C.A., a1962; 14 Uplands Avenue, Clayton Heights, near Queensbury, Bradford.

Wilson, David Charles, A.C.A., a1962; 1A Church Hill, Loughton, Essex.

Wilson, John, A.C.A., a1962; 54 Pembroke Road, Palmer's Green, London N13.

Winn, Geoffrey Frank, B.COM., A.C.A., a1962; with Gilberts, Hallett & Eglington, 51 Coleman Street, London EC2.

Winton, James, A.C.A., a1962; 17 Devonshire Road, London SW19.

Wong, (Miss) Florence Fook Wing, B.A., A.C.A., a1962; 150 Kennedy Road, Hong Kong.

Wood, Brian Bowran, B.A., A.C.A., a1962; 47 Linden Gardens, London W2.

Wood, Edmund Henry, A.C.A., a1962; 18 Adel Park

Gardens, Leeds 16. Wood, Kenneth, A.C.A., a1962; 86 Washington Street, Bradford 8.

Wood, Peter James, A.C.A., a1962; Flat 3, 114 Cardigan Road, Leeds 6.

Wood, Richard Anthony, A.C.A., a1962; 'Silvanus', Busbridge Road, Loose, Maidstone, Kent.

Wood, William Henry Luke, M.A., A.C.A., a1962; 'The Laurels', Sherburn Road, Durham.

Woolley, John Samuel Bishop, A.C.A., a1962; Hook Wood, Ampfield, Romsey, Hants.

Worsley, Michael David, B.SC., A.C.A., a1962; 86 Gloucester Road, Hampton, Middx.

Wright, Alan Wilfred, A.C.A., a1962; 103 Birch Tree Avenue, West Wickham, Kent.

Wright, Michael John, B.A., A.C.A., a1962; 54 Sidney Road, Rugby, Warwicks.

Wyatt, Peter Walter Ernest, A.C.A., a1962; 'Cobtree', Ring Road, Blackford, Chester.

Yamakis, Ninos Antoni, A.C.A., a1962; P.O. Box 582, Nicosia, Cyprus.

York, John Timothy Langham, B.A., A.C.A., a1962; 'Sandgate', Merrilocks Road, Blundellsands, Liverpool 23.

Young, Brian William, A.C.A., a1962; 13 Nassington Road, Hampstead, London NW3.

Zabell, Barry Norman, A.C.A., a1962; 271 Thorpe Hall Avenue, Thorpe Bay, Essex.

### **Deaths of Members**

The Council received with regret the Secretary's report of the deaths of the following members:

Andreas, George Ernest, F.C.A., London.

Ballantyne, Thomas Norman, F.C.A., Torquay.

Binns, Leslie Reginald, F.C.A., London.

Brown, Harry Shell, F.C.A., Manchester.

Bull, Lawrence, F.C.A., Rochester.

Burns, David Brunel, F.C.A., Salisbury, Southern Rhodesia.

Butler, Edgar Harold Barnett, F.C.A., Worcester.

Dickinson, John Casson, O.B.E., F.C.A., Stockholm.

Fisher, Sydney, B.COM., F.C.A., London.

Hogg, Edwyn Rymer, M.A., F.C.A., London. Mason, Henry Haradyne, F.C.A., London.

Midgley, Charles George Holmes, M.C., F.C.A., London. Mossop, Henry, F.C.A., Barrow-in-Furness.

Pinder, Frank Norris, F.C.A., London.

Sharratt, Frank, F.C.A., Weston-super-Mare.

Simmonds, Gordon Scot, F.C.A., Teddington.

Stephenson, Geoffrey Christian, F.C.A., Marlow.

Sutcliffe, Clifford, F.C.A., Manchester.

Thorn, Edward Stanley, F.C.A., London.

Walker, Archibald Hughes, F.C.A., Liverpool.

Ward, Douglas Martin, F.C.A., London.

Watkinson, Alfred Sheppard, F.C.A., Blackpool. Whittle, Jack, B.COM., F.C.A., Nottingham.

Wild, Clifford, F.C.A., Dorchester.

### FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on September 6th, 1962.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Roy Arthur Whitman, A.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of clause 21 of the supplemental Royal Charter in that (a) he failed to pay the subscription payable by him under bye-law 42 in respect of the year 1962 for four months after the same had become due; (b) he failed to ensure that sufficient funds were available to meet the cheque dated April 28th, 1962, for the sum of £5 5s drawn in favour of the Institute in payment of the said subscription, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Roy Arthur Whitman, A.C.A., had been proved under both headings and the Committee ordered that Roy Arthur Whitman, A.C.A., of 31 Parkfields, Strood, Rochester, Kent, be reprimanded.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Edgar Victor Leathers, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of clause 21 of the supplemental Royal Charter in that he failed (a) within a reasonable time or at all to answer or take any action in response to requests in relation to a Deed of Arrangement of which he was appointed trustee made to him by the solicitors of a preferred creditor under the Deed; (b) within a reasonable time or at all to reply to or take any action in response to four letters addressed to him by an Under-Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Edgar Victor Leathers, F.C.A., had been proved under both headings and the Committee ordered that Edgar Victor Leathers, F.C.A., of 21/23 Princes Street, Ipswich, be reprimanded.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Alan Sidney Bennett, F.C.A., was on May 30th, 1962, convicted in the District Court of Mengo at Kampala of three charges of stealing by a company officer contra to section 259 of the Uganda Penal Code, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Alan Sidney Bennett, F.C.A., had been proved and the Committee ordered that Alan Sidney Bennett, F.C.A., imprisoned in Uganda, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that John Duncan King, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of clause 21 of the supplemental Royal Charter in that (a) having been removed by a bank from the office of receiver and manager of a limited company he failed within a reasonable time (i) to hand over to his successor as receiver and manager or to the said bank a motor-car purchased by him as receiver and manager and the books and papers of the company and/or (ii) to render to the said successor or to the bank any detailed statement of his remuneration as receiver and manager; (b) he failed within a reasonable time or at all to implement the terms of a certificate of a Master of the High Court dated November 2nd, 1961, in relation to the moneys due from him as receiver and manager, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against John Duncan King, F.C.A., under heading (a) (i) had been proved but that under headings (a) (ii) and (b) the formal complaint had not been proved and the Committee ordered that John Duncan King, F.C.A., of 137 Victoria Street, London SW1, be reprimanded.

### FINDING AND DECISION OF THE APPEAL COMMITTEE

Finding and Decision of the Appeal Committee of the Council of the Institute appointed pursuant to bye-law 108 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at a hearing held on September 5th, 1962.

The Appeal Committee heard an appeal against the Finding and Decision of the Disciplinary Committee of the Council of the Institute upon a formal complaint preferred by the Investigation Committee of the Council to the Disciplinary Committee that Stanley Bryce a member of the Institute had failed to pay the subscription payable by him under clause 11 of the supplemental Royal Charter and bye-law 42 in respect of the year 1962 for four months after the same had become due so as to render himself liable under

clause 21 (7) of the supplemental Royal Charter to be excluded from membership or to be suspended for a period not exceeding two years from membership. The Appeal Committee affirmed the Finding of the Disciplinary Committee that the formal complaint against Stanley Bryce had been proved and the Committee also affirmed the Decision that Stanley Bryce, of 58 Fenham Hall Drive, Newcastle upon Tyne 4, be excluded from membership of the Institute.

### INTERNAL AUDITORS' CONFERENCE

### Third European Regional Conference at Brighton

The Third European Regional Conference of The Institute of Internal Auditors was held on Wednesday, Thursday and Friday of last week at Brighton. The theme of the conference, which was sponsored by the London Chapter, was 'Developing the internal audit perspective'. Present at the conference was Mr Bradford Cadmus, Director of Research and Education, from the Institute's headquarters in New York. Besides the United Kingdom Chapters, representatives were present from Chapters in Norway, Finland and the Irish Republic.

The conference was opened on Wednesday by the European Regional Director, Mr J. O. Davies, F.C.A., who referred to various definitions of perspective, particularly the one that defined it as 'the proportion in which the parts of a subject are viewed by the mind'. In emphasizing that it was the eye of the beholder that was the determining factor, Mr Davies said that he had always believed that, given adequate technical skill, it was the personality and character and, in particular, the judgment of the internal auditor that produced the perspective that resulted in a first-class audit appraisal of a given situation.

In a paper given at the opening session on 'Internal auditing in the world of today and tomorrow', Mr Cadmus discussed the present status of advanced internal auditing practices and forecast the development of internal auditing in the future. He said: 'If I were asked to name a single element as the most important to the future development of internal auditing, I would say – You. The work of the Institute, a receptive attitude by management, an understanding of internal auditing by educators – all of these can do no more than to set the stage on which you do the work.'

Introducing Mr Cadmus, Mr Davies paid tribute to his previous work for the Institute as managing director for the last fifteen years. Mr Cadmus's achievement in creating a world-wide Institute was without parallel, he said, in the auditing, accounting and management control fields.

### Communications

In a paper on 'Communications', given on Thursday morning, Mr C. S. Deverell, M.A., B.S.C.(ECON.), B.COM., F.C.I.S., A.M.B.I.M., said what struck him as fundamental in the communication of information between men and women was the consideration of the attitudes of those who impart and receive data. In the work of an internal auditor, getting the co-operation of employees was a major point gained.

The power of conveying information persuasively, said Mr Deverell, was linked with suggestion, itself a process which resulted in the acceptance of a proposition in spite of the absence of logically adequate grounds for acceptance. Where the source of an item of information or an instruction has prestige and authority, suggestibility can be an aid to management.

The process of memory was equally important. It was going on inside the mind of the person who was making

the communication. It helped him to store his data until he was able to arrange it in the best possible way. Similarly, the work of memory must be going on in the mind of the receiver or nothing would be retained. He wondered if sufficient time was spent in getting to know the attitudes of the parties to communication.

To the internal auditor, reports were an important tool but the number of them had to be kept to a minimum. Anything enabling reports to be written with less expenditure of time and energy was valuable. Above all, one should attempt to reduce the length of reports, to make use of visual material and charts, and to tabulate where appropriate.

It had been estimated that the preparation, writing and dispatch of a business letter could cost up to 7s 6d. There was a temptation to resort to written communication as an escape, although in many matters a better understanding could be reached by direct contact. Only let two people discuss a single problem together and their subsequent correspondence and telephone talks on other problems would be more effective. In a direct verbal exchange misunderstandings were more quickly removed.

Mr Deverell concluded: 'We still devote too little attention in our business, technological and scientific training to this central matter of communications. When we at last do so, the saving to the national economy can be very important indeed.'

### **Management Problems of Size**

Mr J. E. Wall, O.B.E., of E.M.I. Ltd, addressed the conference on 'Management problems of size'. He stated that the management problems of large growing companies, after a certain point, tend to grow faster than the business itself-indeed many companies move into an area where the problems are totally different (e.g. control by personal supervision is replaced by impersonal control by systems, methods and procedures). The main management problem here was the tendency towards rigidity, inflexibility, slowness in decision, lack of liveliness and lack of receptiveness to change. This raised, directly, problems of control, especially how to achieve that lightness of touch which was essential if inflexibility was to be avoided and liveliness to be encouraged. This entire problem, difficult enough in itself, was aggravated, especially for the internal auditor, by the development within the larger industrial organizations of a multitude of specialist services to management.

Somehow, said Mr Wall, it was necessary to resolve the conflict between the system of control which is at once so light that it will not prejudice initiative and innovation but yet which is sound and secure enough to avoid an auditor's qualification on the annual balance sheet of the company.

The real problem is, he said, that the profession of internal auditors does not yet seem to have resolved one major issue. Should the internal auditor be a totally independent man apart or should he be an ally of the

whole mass of management services? One group will argue that once an internal auditor departs in any way from his position of independence and becomes even a partial ally of some other service, he is on a slippery slope which can lead rapidly to disaster. The other group is more aware of the complexity of the management services concerned with efficiency and effectiveness in their widest sense and accepts that they must get to know about these services and what they do, with little hope of being able to check upon their success.

Mr Wall stated that he belonged to the second school because, inevitably, the internal auditor would have to check the validity of the systems and procedures proposed by the specialized services.

### Impact of E.D.P. on Audit Techniques

Addressing the conference on "The impact of electronic data processing on audit techniques", Mr D. W. Hooper, M.A., F.C.A., chief organizing accountant, National Coal Board, stated that data processing operations in the field of industry and commerce prepared information relating to the conduct of the organization, and usually had an accounting flavour. It was in this context that the function of audit became enmeshed with data processing and, as computers took over more and more of the familiar procedures, the auditor would become involved deeply with electronic data processing.

The introduction of electronic data processing, considered as a form of mechanization of regular accounting procedures said Mr Hooper, should of itself have little impact on auditing as a fundamental art and technology. The wider scope for management information processing should, however, give the auditor in his turn equally wider scope for fuller development of the audit function.

This possible development, and indeed the successful everyday work of an auditor in an electronic data processing centre, depended on him really understanding his craft, irrespective of conditions of manual or conventional accounting machine systems or of computers. If he really appreciated the need to audit in depth, to differentiate between the significant and insignificant, to discard old-fashioned methods of ticking every manual entry with a quill pen, then he had nothing to fear from the introduction of electronic data processing.

If, however, he remained content to carry out his audit by historical checking of individual transactions, without regard to their relative importance or their ultimate effect on management information, then he must, even if it meant returning to the textbook and evening classroom, go back to the first principles of auditing, and learn again real understanding of the true meaning of the word 'audit', before he was allowed to enter an electronic data processing centre, still less to come within touching distance of a computer.



At the European Regional Conference (left to right): Mr J. O. Davies; Mr O. Ingebrethsen (Norway); Alderman W. H. G. Button, J.P., Mayor of Brighton; Mr Bradford Cadmus; Mr N. J. Haughey; Mr E. Salava (Finland); Mr E. N. Judge.

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# ACCOUNTANT

# Notes and Notices

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

President's Luncheon

The President, Mr P. F. Carpenter, and members of the Council of The Institute of Chartered Accountants in England and Wales gave a luncheon on October 10th, at the Hall of the Institute. The guests were the Lord Mayor of London, Sir Frederick Hoare, Mr Alderman and Sheriff R. I. Bellinger, Sir Wentworth Rowland, Bt (Chairman, Bridge House Estates Committee), Mr Deputy Rodway Stephens (Chairman, Coal and Corn and Finance Committee), Mr Leslie B. Prince (Chairman, Rates Finance Committee), Mr W. B. Holden (Chairman, Central Markets Committee), Mr E. W. Watts (Chairman, City of London Schools Committee), Mr K. R. Cork (Chairman, Music Committee), Mr Deputy R. J. Hayward (Chairman, Officers and Clerks Committee), Mr Deputy E. F. Wilkins (Chairman, Barbican Committee), Mr E. K. Stewart-Smith (City Chamberlain), Mr Desmond Heap (Comptroller and City Solicitor), Colonel N. F. B. Shaw (Acting Secretary to the Lord Mayor), Brigadier R. H. S. Popham (The Swordbearer), Brigadier P. Clapham (Common Cryer and Serjeant-at-Arms), Colonel G. E. P. Hutchins (City Marshal), Sir Irving Gane.

### PROFESSIONAL NOTICES

MESSRS J. B. DUNN, F.C.A., J. H. MOORHOUSE and J. E. MOORHOUSE, announce that the practice of WILD & SMITH, previously carried on by them at 64 Seymour Grove, Manchester 16, has been transferred to Regal Cinema Buildings, 104 Oxford Road, Manchester 1, as from October 1st, 1962, and the name changed to DUNN, MOORHOUSE & Co.

Messrs Kemp, Chatteris & Co, announce with deep regret the death, on October 4th, of Mr E. R. Hogg, F.C.A., who had been a partner since April 1st, 1946.

Messrs de Paula, Turner, Lake & Co, Chartered Accountants, of Imperial House, Dominion Street, London EC2, announce that they have admitted into partnership Mr John Derek Budd, A.C.A., a senior member of their staff. The name of the firm remains unchanged. They also announce that, owing to redevelopment, their premises formerly at 17 Coleman Street have been vacated and the entire practice will in future be conducted from extended offices at Imperial House, Dominion Street, London EC2.

MESSRS HARRY L. PRICE & Co, Chartered Accountants, of 47 Mosley Street, Manchester 2, announce that

they have opened a branch office at Bingley House, 12 Lune Street, Preston.

MESSRS SINGLETON, FABIAN & Co, Chartered Accountants, of Lee House, London Wall, London EC2, announce that they have taken into partnership Mr P. W. G. DUBUISSON, A.C.A., and Mr R. W. CHETWYND, A.C.A., as from October 10th, 1962.

Messrs Tribe, Clarke, Darton & Pollock, Chartered Accountants, of 62 High Street, Rochester, Kent, announce with regret the death of their senior partner, Mr Lawrance Bull, F.C.A.

### **Appointments**

Mr D. G. Badham, F.C.A., has been appointed deputy chairman of Powell Duffryn Engineering Co Ltd, and will relinquish the position of managing director.

Mr Sydney Croudson, F.C.A., has been appointed to the board of the Leeds and Holbeck Building Society.

Mr W. S. Ledden, A.A.C.C.A., secretary and financial controller of Austin Knight Ltd, has been appointed a director of the company.

Mr N. S. Thompson, F.C.A., group financial controller of David Brown & Sons (Huddersfield) Ltd, has been appointed to the board.

### OBITUARY Edward Taylor, F.C.A.

We have learned with regret of the death on September 27th, in Jersey, at the age of 85, of Mr Edward Taylor,

F.C.A.

Educated at King Edward Grammar School, Aston, Birmingham, where his father was a form master, Mr Taylor was admitted an associate of The Institute of Chartered Accountants in England and Wales in 1899 and was elected to fellowship in 1921. Following a short period of partnership with the late Mr Clement Keys, F.C.A., Mr Taylor practised for over thirty years under the style of Edward Taylor & Co, of Temple Row, Birmingham. He was particularly known for the work he undertook for the brick industry, acting as secretary for a number of its associations as well as serving on the Council of the National Federation of Clay Industries and many of its committees.

In 1941 Mr Taylor went into semi-retirement, but continued to practise from his home in Wylde Green, Sutton Coldfield, while being able to devote a little more of his time to golf and other interests. He moved to Jersey in 1954 with his wife Cissie Taylor, who died two years ago. He leaves a daughter and two sons.

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### THE ACCOUNTANT

### CERTIFIED ACCOUNTANTS' LUNCHEON

The first of the 1962-63 luncheon meetings of The Association of Certified and Corporate Accountants was held at the Connaught Rooms, London WCI, last Tuesday, when Professor Sir Albert Richardson, K.C.V.O., P.P.R.A., spoke on modern architecture.

### COMMON MARKET LECTURES

The second in a series of ten public lectures on the European Common Market entitled 'Machinery of Government', by Professor Max Beloff, will be given on Tuesday next at The London School of Economics and Political Science, Houghton Street, Aldwych, London WC2, commencing at 5 p.m. Other lectures: November 6th: 'Legal aspects', by Professor O. Kahn-

November 20th: 'Labour problems and social policy', by Mr R. W. Cox.

December 4th: 'Problems of the association of overseas

countries', by Dr J. J. Van Der Lee.

January 15th, 1963: "Tariffs and trade', by M J. Royer.

January 29th: 'Industrial repercussions, especially the problems of particular industries in individual countries' (lecturer to be announced).

February 12th: 'Agriculture', by Hr H.-B. Krohn.
February 26th: 'The rules of competition in the E.E.C. Treaty and in the participating countries', by Dr E. Günther.

March 12th: 'Money and finance', by Professor S. Posthuma.

Admission is free, without ticket. All the above lectures will take place at The London School of Economics commencing at 5 p.m. Each lecture will be preceded by tea at 4.30 p.m.

### COURSES FOR MANAGEMENT

Three one-day courses entitled 'Top data for top men' 'How to analyse company accounts and yields', and 'Stock control and reduction', will take place in London from October 30th to November 1st.

A two-day course on office management entitled 'How to control office costs', is to be held in Man-

chester from October 30th to 31st.

Further particulars, together with a complete list of courses for the 1962-63 session, are obtainable from Management Courses Ltd, 8 St George's Terrace, London NW1.

### CORRECTIONS

The current interest rate on tax reserve certificates was incorrectly given as 21 per cent instead of 21 per cent under 'Rates and Prices' in our October 6th issue.

In addition to her qualifications as listed on page 438 of our issue of October 6th, Mrs Helene M. A. Ramanauskas, Associate Professor of Accounting at De Paul University, Chicago, who presented a paper at the Eighth International Congress of Accountants, holds the degree of Doctor of Political Economics from the University of Munich.

### THE INSTITUTE OF INTERNAL AUDITORS

The next meeting of the Manchester Chapter of The Institute of Internal Auditors will be held on Wednesday, October 24th, at 6.30 p.m. in the Chartered Accountants' Hall, 46 Fountain Street, Manchester 2, when the former managing director of the Institute. Mr Bradford Cadmus, will be speaking on 'Internal auditing in the world today - and the future'.

### THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of The Chartered Accountant Students' Society of London will be held next week:

Monday, 5.30 p.m. at the Institute, Moorgate Place, EC2. Lecture on 'What is income?', by Professor B. S. Yamey, B.COM. (Professor of Economics, University of London).

Tuesday, 7.30 p.m. at Epsom: Lecture on 'Time to think'. by a representative of International Computers and Tabulators Ltd.

Wednesday, 6 p.m. at the Institute: Debate on "There is

no education like co-education'.

Thursday, 5.15 p.m. at the Institute: Introductory course lecture on 'The fundamentals of auditing', by Mr F. R. Porter, F.C.A., A.C.W.A.

6 p.m. at Bedford: pre-examination course by Mr V. S. Hockley, B.COM., C.A., F.A.C.C.A.

Friday, 5.15 p.m. at the Institute: Introductory course lectures on 'The basic principles of double-entry book-keeping and accounting systems', by Mr R. J. Carter, B.COM., F.C.A. (Secretary of the Students' Society) and on 'The law and its branches', by Mr P. W. Medd (Barrister-at-law).

10 a.m. at Bedford: pre-examination course by Mr

V. S. Hockley, B.COM., F.A.C.C.A.

### CHARTERED ACCOUNTANTS' GOLFING SOCIETY

The autumn meeting of the Chartered Accountants' Golfing Society was held at Liphook Golf Club on October 5th. The leading scores were as follows:

Scratch Prize: R. Anderson, 29 pts.

Stableford Medal: S. W. Penwill, R. G. Pegler, P. G. Barber and A. M. Milling, all 35 pts.

Stableford Foursomes: R. Anderson and A. M. Milling;

R. G. Pegler and H. C. Staines, both 37 pts.

The Turquand Young Challenge Cup was won by Mr S. Pleydell-Bouverie.

### DUBLIN SOCIETY OF CHARTERED ACCOUNTANTS

The annual golf meeting of the Dublin Society of Chartered Accountants was held at the Grange Golf Club, Rathfarnham, Co. Dublin, on September 10th. The attendance set a fresh record, with 107 members, students and guests taking part. The results were as

Past Students' Cup: D. W. Pratt (15), 2 down (won on

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last six holes). W. Thompson (6), 2 down (runner-up on second nine). B. J. Whelan (10), 2 down (third prize on second nine). J. R. B. Hewat (12), 2 down.

Visitors' Prize: W. T. Campbell (9), 2 up (won on second nine). I. Vaughan (10), 2 up.

Four-ball: J. C. Oakes (14) and I. Vaughan (10), 6 up. A. Moloney (14) and J. Doran (12), 4 up (runners-up on second nine). D. P. Flinn (4) and W. T. Campbell (9), 4 up. T. F. Kelly (16) and J. Burke (6), 4 up. S. H. Polden (14) and A. F. Bennett (17), 4 up.

At the subsequent dinner Mr R. P. J. Smyth, Chairman of the Society, presided, and the guest of honour was the Captain of Grange Golf Club, Mr T. G. Carroll. Dinner was followed by an enjoyable smoking concert at which Jack Cowle, Brendan McShane and Des Keogh provided excellent entertainment, and it was discovered that one or two student members had alternative careers open to them.

# New Legislation

The date indicates when an Act received the Royal Assent.

STATUTES (10 & 11 Eliz. 2)

### Chapter 37: Building Societies Act, 1962

An Act to consolidate (with corrections and improvements made under the Consolidation of Enactments (Procedure) Act, 1949) the Building Societies Acts, 1874 to 1960, and certain related enactments, except certain provisions of those Acts relating to the winding up of building societies and provisions relating to unincorporated societies.

Price 6s 6d net.

July 19th, 1962.

Chapter 38: Town and Country Planning Act, 1962 An Act to consolidate certain enactments relating to town and country planning in England and Wales.

Price 13s net.

July 19th, 1962.

### Chapter 46: Transport Act, 1962

An Act to provide for the reorganization of the nationalized transport undertakings now carried on under the Transport Act, 1947, and for that purpose to provide for the establishment of public authorities as successors to the British Transport Commission, and for the transfer to them of undertakings, parts of undertakings, property, rights, obligations and liabilities; to repeal certain enactments relating to transport charges and facilities and to amend in other respects

the law relating to transport, inland waterways, harbours and port facilities; and for purposes connected with the matters aforesaid.

Price Ios net.

August 1st, 1962.

### Chapter 47: Education (Scotland) Act, 1962

An Act to consolidate the enactments relating to education in Scotland.

Price 7s net.

August 1st, 1962.

### Chapter 54: Trinidad and Tobago Independence Act, 1962

An Act to make provision for, and in connection with, the attainment by Trinidad and Tobago of fully responsible status within the Commonwealth.

Price Is net.

August 1st, 1962.

### Chapter 55: Lotteries and Gaming Act, 1962

An Act to make provision with respect to the interpretation of references to private gain in certain enactments relating to lotteries or gaming, and to exclude the operation of paragraph (b) of subsection (1) of section 16 of the Betting and Gaming Act, 1960, in relation to gaming to which section 20 of that Act applies.

Price 3d net.

August 1st, 1962.

# Chapter 56: Local Government (Records) Act, 1962

An Act to amend the law relating to the functions of local authorities with respect to records in written or other form.

Price 8d net.

August 1st, 1962.

### Chapter 57: Uganda Independence Act, 1962

An Act to make provision for, and in connection with, the attainment by Uganda of fully responsible status within the Commonwealth.

Price Is net.

August 1st, 1962.

### Chapter 58: Pipe-lines Act, 1962

An Act to regulate and facilitate the construction, and secure the safe operation, of pipe-lines and make provision for matters arising thereout; and to provide that certain pipe-lines shall be plant or machinery for the purposes of the enactments relating to rating in England and Wales.

Price 4s 6d net.

August 1st, 1962.

### Chapter 59: Road Traffic Act, 1962

An Act to make further provision as to road safety and road traffic and for purposes connected therewith.

Price 3s 6d net.

August 1st, 1962.

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# ACCOUNTANT

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# Great Expectations?

NOLLOWING on the depressing picture of the domestic industrial scene drawn by the recent inquiry of the Federation of British Industries, there comes, as if further evidence were needed, confirmation from the National Association of British Manufacturers. A survey of some five hundred member firms based on their trading experience during the third quarter of 1962 confirms that the economy continues to drift. The position in the textile industry is 'least satisfactory' and that in the engineering and building industries 'worse than average'. This disturbing picture, to quote the N.A.B.M. report, has resulted from the decline in home orders. All industries are described as showing rising costs although, in the main, these cost increases have not been passed on in higher prices to the consumer, but have trimmed profit margins still further. There is, states the report, a marked lack of confidence regarding the future, and it is therefore 'clearly desirable that some further and positive announcement of its policy should be made by the Government at an early date'.

Whether the announcement following the fifth meeting of the National Economic Development Council, that its members are to receive by the end of the year details of a plan for expansion, will provide the necessary fillip to industrial confidence is dubious. The brief outline of objectives within the various sectors of the economy, as set out in the table overleaf, is certainly encouraging. The promised 4 per cent per annum growth for the economy as a whole depends on the attainment of a  $4\frac{1}{2}$  per cent increase in imports and a 6·2 per cent growth in investment in each year until 1966. Exports will increase by 5·7 per cent if the plan is fulfilled. The significance of these figures may be better appreciated if it is stated that the projected surplus on the balance of payments account is £300 million, while the annual increase in the national product will be about £1,150 million.

Judging by the performance in recent years of other advanced economies, these planned goals are not impressive. They are striking merely in comparison with the depressing record of the United Kingdom economy in economic growth, industrial investment and exports. In fact, it is already clear that the plan will not be fulfilled for 1962, so that if it is to be completed by 1966, the pace of development needs to be accelerated. At no time is it intended that either exports or industrial investment will re-empt the domestic consumers' share of the rising national product. According to the plan, domestic consumption should rise annually in real terms by about  $2\frac{1}{2}$  per cent. All that remains, therefore, is to implement the plan.

It is worth stressing, since the point tends often to be overlooked, that there is no inherent advantage in planning as opposed to twentiethcentury laissez faire for ensuring the maximum rate of economic growth. To put it no more strongly, the most impressive growth records in the past decade are to be found in Japan and Western Germany rather than on the other side of the Iron Curtain. The much-vaunted success of French planning in recent years probably owes as much to internal political stability, economic expansion and the boom in intra-European trade, as it does to the national planning commission. In fact there is a real danger at present that internal inflationary pressures in France are building up at pace quite likely to disrupt the plan. The same weaknesses are now to be discerned on the other side of the Rhine where rather less is now heard of the 'Wirtschaftswunder'.

The case for planning has arisen in most of the West European countries for the simple reason that full employment, coupled with the increasing rigidity of institutional forces such as

The Use of National Resources in 1961 and the Estimates Provisionally Arrived at for 1966

D. Ancilable	1961 £ million	1966 Provisional £ million (at constant 1961 prices (2))	Increase per cent per annum 1961-66
Resources Available Gross Domestic Product at market price Imports of Goods Net Imports of Services	26,486 3,998 83	32,225 4,990(1) 94(1)	4.0 4.5 —
Total:	30,567	37,310	4.1
Use of Resources Consumers' Expenditure PublicConsumption(3) Investment Exports of Goods	17,336 4,570 4,798 3,863	20,280 5,460 6,470 5,100(1)	3·2 3·6 6·2 5·7
Total:	30,567	37,310	4.1

<sup>(1)</sup> Allowing for net investment income from abroad and grants paid abroad the balance of payments surplus on current account would be £300 million.

trade unions and manufacturing associations. means that the pricing system can no longer bring about the required distribution of economic forces in the classical economic manner. No doubt price-fixing and restrictive practices, which are the essence of modern economies, are the inevitable product of societies in which individuals, whether they be employers or employees, rate economic security far higher than economic progress in competitive conditions. Any society is free to make its choice and there is little doubt, least of all in Britain, as to which way the pendulum is swinging. It is equally evident that the community has only the haziest notion of the full implications of its choice; witness the demand for consumer sovereignty in the market coupled with the demand for an industrial welfare state for the consumers qua workers. It will be interesting to observe just how long it will be before the virtues of competition in the market place (including the labour market) are replaced by the virtues of planned and ordered economy. It is for such very human reasons that one may reasonably doubt the ultimate efficacy of the provisions in the Rome Treaty relating to monopoly practices.

Once the full implications of economic planning are recognized, especially in an economy in which both sides of industry are well able to protect their own interests, the actual plan itself warrants examination. The objectives of the N.E.D.C. planare well within the capacities of the economy. Given the modern technique of economic model building, such as is described in the latest study from the Department of Applied Eonomics at Cambridge, it may be assumed that the plan is internally consistent and the various objectives compatible. The basis for such projections, however, rests ultimately on the validity of the assumptions regarding the relationships between various parts of the economy, coupled with the quality of the statistical data themselves. Furthermore, one of the biggest problems is to build into such a model the corrections required to compensate for changes which will inevitably stem from unexpected shifts in the price level which must, in varying degrees, affect consumer expenditure patterns, private investment and Government fiscal policy. Superimposed upon all this is

<sup>(2)</sup> Constant 1961 prices are used to show the changes in 'real' terms.

<sup>(3)</sup> Current expenditure by central and local government on goods and services. This is about half the total public expenditure. The rest is investment in roads, schools, hospitals, etc., and 'transfer payments' such as pensions, subsidies and debt interest.

<sup>&</sup>lt;sup>1</sup>A Social Accounting Matrix for 1960. Published for the Department of Applied Economics, Cambridge University, by Chapman & Hall Ltd, London. 128 6d net.

he linchpin of the balance of payments account which has dominated United Kingdom economic solicy since the war.

To state such obvious problems is not to decry he significant progress in economic planning that he computer and the model represent. It merely erves to remind the more optimistic reader of he errors to which the best laid plans of mice and conomists are liable. It would be as unkind as it sunnecessary to remind the reader of the disasrous record of post-war forecasting, even in such relatively simple matters as the prospective demand for doctors, teachers and fuel. The one positive contribution to a solution of Britain's economic problems that 'Neddy' might well make is to engender a measure of confidence among employers and unionists alike in the capacity of the Government to achieve continuous growth and stability. This will hardly be done overnight, and in the meantime something rather quicker acting than the N.E.D.C.'s first plan is urgently needed.

# Short-term Gains - XVI

### LAND-OWNING COMPANIES

AST week we gave a very simple example of a disposal of shares which, although not caught by the general provisions in the linance Act, 1962, relating to Case VII tax, vould be caught by the special provisions of ection 14. The example concerned the sale of hares in a land-owning company, the seller aving a substantial interest in that company. Iowever, the draftsman of the section was clearly letermined that it should not be by-passed by he use of one or more intermediate companies. Section 14 (1) lays down compendiously a number f different sets of circumstances, the presence of which, immediately before a disposal of shares, an bring the disposal within the operation of the ection. Now that we have defined the expressions and-owning company', 'substantial interest' and inder the control of not more than five persons', re can proceed to a fuller exposition of section 14 1).

It is essential in any event that a taxpayer, who nay be an individual or a company, and whom we will call 'T.', should dispose of shares in a ompany, which we will call X. Ltd. For this urpose 'shares' receive an extended definition om section 14 (8) with a view to bringing in iterests in guarantee companies. Another essentials that somewhere in the chain there must be a ind-owning company. The disposal by T. of hares in X. Ltd may be caught either by pararaph (a) of section 14 (1) or by paragraph (b), or, f course, by both. Paragraph (a) applies only there T. has a substantial interest in X. Ltd. aragraph (b) applies only where X. Ltd is concolled either by T. alone or by T. and persons

connected with T. We will take the two paragraphs separately.

Paragraph (a) (T. having a substantial interest in X. Ltd.):

Additional conditions for satisfying paragraph (a).

X. Ltd. (i) is under the control of not more than five persons; and

(ii) either (1) X. Ltd is itself a land-owning company; or

(2) X. Ltd has control of a landowning company

Paragraph (b) (T. having control of X. Ltd, alone or with persons connected with T.):

Additional conditions for satisfying paragraph (b).

### Either:

- (i) X. Ltd has a substantial interest in a landowning company; and
- (ii) the land-owning company is under the control of not more than five persons;

### O1

- (iii) X. Ltd has control of a company (Y. Ltd); and
- (iv) Y. Ltd has a substantial interest in a landowning company; and
- (v) the land-owning company is under the control of not more than five persons.

If, after applying the above tests, it is shown that section 14 (1) applies, then the subsection directs that T. shall be chargeable to tax under Case VII by reference to his disposal of the shares in X. Ltd, regardless of the date he acquired them, and regardless of the fact (if it is a fact) that he acquired them as legatee. It is perhaps idle to speculate whether the draftsman really needed to include so many alternatives. It would seem that if X. Ltd has control of a company which has a substantial interest in a land-owning company, so as to satisfy (iii) and (iv) above, then

it is at least highly probable that X. Ltd has a substantial interest in the land-owning company direct, so as in any case to satisfy the alternative condition (i).

If T. disposes of his shares in X. Ltd at a profit, it by no means follows that that profit is in any way attributable to an increase in the value of chargeable land acquired by X. Ltd (or one of the other companies in the chain) within the preceding three years. Section 14 (1) could, therefore, cause considerable hardship if it stood alone. However, it is expressed to be 'subject to the provisions of this section', and in fact subsection (2) is directed to protecting T. from any such hardship. Subsection (2) contains two paragraphs. If paragraph (a) is not satisfied, there is no Case VII charge at all. If paragraph (a) is satisfied, then paragraph (b) imposes an overriding limit to the Case VII assessment which section 14 (1) imposes. The position is summed up by paragraph 41 of the White Paper' reproduced below:

- '41. If a disposal of shares in a land-owning company comes within the ordinary Case VII charge, section 14 does not apply. But if it is outside the ordinary Case VII charge, the gain to be charged in respect of a disposal within [section] 14 is whichever is the lower of
  - (i) the amount of the gain on the disposal, and
  - (ii) the appropriate part of the gain the company would have made if it had sold its chargeable land which was acquired not more than three years before the disposal [section] 14 (2).'

Paragraph (a) does not make it entirely clear whether one merely assumes a sale by the land-owning company (or companies) concerned, or whether all the companies in the chain must be assumed to sell their land, whether they are land-owning companies or not. There is a sting in the tail of paragraph (b); it prohibits the allowance of any Case VII loss which section 14 may attribute to T.

In computing the notional chargeable gains for the purpose of section 14 (2) one must allow the notional Case VII losses which would have accrued to the company concerned on the notional sale (section 14 (3)). Moreover, one must allow 'the like deductions as would have been made in charging that tax (under Case VII) for the losses that would have so accrued'. Again one must also allow 'losses previously accruing' to the company 'so far as they could not

be deducted from chargeable gains previously accruing to' the company. These latter losses must apparently be real, and not notional, losses.

Section 14 (3) acquired a proviso at the Report Stage of the Bill, on July 2nd. Its object is to protect a legatee of shares from section 14 liability if the company acquired the land before the death. Clearly, if T. inherited land itself on a death, he would not be chargeable on its redisposal, however soon. Therefore it would be wrong to charge him under section 14 if the land-owning company had already acquired the land before T. acquired the shares. The proviso directs in effect that the land is to be excluded from the computation of notional chargeable gains of the company.

Section 14 (4) resumes discussion of the losses to be allowed in computing the company's notional chargeable gains. If losses allowable to a company under section 14 (3) cannot be deducted because notional chargeable gains of that company are absent or insufficient, then the chargeable gain attributable to T.'s disposal of his shares is reduced. If X. Ltd itself is the company concerned, the full amount of the unallowable loss is deducted. If the company concerned is further down the chain of companies, the deduction is limited to the proportion of the unallowed loss 'attributable' to the shares of X. Ltd.

It remains to deal with the method of computing the part 'attributable' to any shares in a company of:

- (i) notional chargeable gains; or
- (ii) amounts deductible in respect of losses.

Taking the simple case where X. Ltd is also the land-owning company, and there are chargeable gains, the procedure is as follows:

### Assume

- (a) that apart from the chargeable gains, the assets of X. Ltd just balance the sum of (i) its liabilities and (ii) its paid up capital;
- (b) that X. Ltd is in liquidation;
- (c) that a sum of money equal in amount to the chargeable gains is added to the assets o X. Ltd.

It remains to compute the amount which would come to T., in right of the disposed of shares in X. Ltd, by reason of (c). If there is a loss, instead of a gain, one must compute the reduction in the amount which would come to T. on the winding up. Where the company is further down the chair than X. Ltd, a like method is followed up the chain.

(To be continued.

# Opportunism and the Accountant

by A. H. TAYLOR, M.C., A.A.C.C.A.

Dearth of materials or labour, changes in fashion – even a revolution in South America, a crash on Wall Street, the publication of a committee report or the speech of a statesman – these and many other occurrences in this modern business age can have rapid and serious repercussions in an enterprise. To meet this situation the author concludes that there is need for a 'new race of accountants' and a 'new emphasis' on their training for industry.

### The Budget as an Intention

N a striking phrase, budgetary control was once described as 'the replacement of oppor-L tunism in business by considered intention'. The possibility of eliminating opportunism in ousiness has many attractions to the theorist, but he ability to grasp the opportunity of the noment is still one of the most valuable attrioutes of the practical business man. Success in nany enterprises must have been due to the rision which made capital out of a change of aste or fashion, and to the quick decision which iltered the product 'mix' because of a 'feeling or the situation'. Profits are derived from many ectivities including, for example, an alert purchasing function which is capable of seizing the opportunity presented by a favourable movement in prices, and to flexible selling which diverts output to a newly emerging market. That kind of opportunism does not, however, remove the need, when circumstances so require, for careful planning and painstaking analysis.

In some industries producing a staple commodity or an essential service, the long-term budget may indicate not only an intention but a reasonably assured forecast of future turnover. If this is the case, efficiency will largely depend on sound administration. Furthermore, in all businesses planning should be founded on key factors such as the space, personnel and capital available. Nevertheless, in even the most conservatively managed organization, the appearance of a new invention or an improved manufacturing method can immediately create the need for an alteration in the design of the product or in the manufacturing process. Electronic devices are already revolutionizing the techniques of mass production, inspection methods and the processing of business data. New materials are being marketed and scientific achievements are constantly creating new consumer demands.

These rapid changes which are occurring in the industrial world are not only influenced by new operating techniques, equipment and materials, but also by the development of new markets throughout the world. Economic, financial and political changes may disrupt business programmes but they also give rise to new opportunities for making and selling. A revolution in South America, a crash on Wall Street, the publication of a committee's report or the speech of a statesman may each cause a redeployment of effort in innumerable businesses.

### Amending the Plan

Precision is the essence of effective budgeting but not all changes of the nature indicated above can be foreseen. When an unpredictable event occurs, it takes at least a month before the complete budgetary system can be amended so as to reflect fully the new direction of the making, selling and buying effort, and the new financial situation. Many companies establish regular dates, perhaps at three-monthly or six-monthly intervals, for the revision of budgets, but while this revision exercise is taking place the system is largely ineffective for planning or control purposes.

Perhaps it is because budgets so frequently become out of date that reliance is still placed on past figures for purposes of control. At least past figures represent facts, whereas budgets which have become out of step with reality can be downright misleading. It is, of course, true that in a large and well diversified organization, the failure of one product line may not significantly affect the overall projections of turnover and profit; but if budgeting is to fulfil its purpose as a means of control then it is the detailed, departmental budgets which are of vital importance.

When circumstances compel a change in the pattern or volume of sales turnover, the usual course of action is for the repercussions of the change to be considered at an executive meeting at which, it is to be hoped, the accountant or

chief financial officer of the business, would be present. At this meeting, the accountant may well be called upon to demonstrate in figures the probable financial effects of the new situation. He may have no more than an hour or so to produce an entirely new set of estimates, which must be factual and informative even though they may be prepared on broad lines. In such an emergency the accountant is unable to rely on recorded figures or existing budgets, but of necessity must deal with the situation by a combination of rapid and logical thinking, experience and 'flair'. Where management becomes a matter of opportunism, the accountant must also become an opportunist.

### **Executive Action**

Subject to the infinite variety of new situations which can suddenly arise in the affairs of a modern industrial concern, the immediate executive action when a radical change occurs in market conditions might take the form of a switching of production, buying and selling effort from one product line to another. If it is a question of taking advantage of a newlyemerging market, the action decided might involve the employment of more personnel, the purchase of new plant, a revision of the form and content of the purchasing programme, the rearrangement of space in factory and office. If the problem concerns the failure of a market the consequences could be redundancy of men, materials, equipment and space. A re-budgeting exercise will take time if the amended figures are to be effective in 'replacing opportunism by considered intention'; meanwhile, the opportunity has been grasped and remedial measures taken. Except in an historical sense the original budget is dead.

A change of the nature envisaged in the operations of a business implies that until the budget can be thoroughly revised it must be replaced by some temporary substitute for planning and control. In such a situation it is a waste of managerial and clerical time for the accountant to continue to issue statements comparing actual performance with budgets which are of historical value only. In the temporary absence of an effective budget, the accounting service has two alternatives. First, to compare current figures with perhaps hastily prepared estimates. Such a device, if it is at all practical, will have little incentive value and may lead managers to lose confidence in the whole budgetary system. The other alternative is to resort to a system of comparing current results with related figures. For control purposes, percentage relationships between costs and sales, profit and capital employed, stocks and current cost of sales and other ratios, will be of greater significance than variances on outdated budgets.

October 27th, 1962

The purely accounting effects of an unpredicted change in activities are of particular importance where monthly accounts are prepared. The overhead expenses included in interim accounts are bound to contain a substantial element of approximation, or may merely represent budgeted figures – especially for expenses which occur irregularly, such as publicity and building occupation costs. A sudden change in the direction of sales may result in considerable alterations to variable overheads such as selling expenses and the cost of many factory services.

### Accounting Adjustments

A further accounting area which may be affected is the system of expense allocation for departmental accounts. The accuracy of such allocations depends not only on sound assessments of the overheads subject to allocation, but also on the selection of correct bases of apportionment. It is, for example, essential for the accountant to have a reasonable estimate of, say, employee benefit costs for a year ahead as well as to know the probable manpower strength of the different departments. Alterations to the physical features of business premises, such as the allotment of space, the distribution of personnel and the availability of equipment, may soon falsify the allocations made in departmental accounts and consequently affect the overhead content of job costs.

It may thus be desirable to leave in abevance for the time being detailed apportionments of overheads to product groups and departments. So far as the system of unit costing is concerned, a standard costing system, if it is based on near capacity loading, would theoretically eliminate the need for any adjustment to the standard oncost rates, even if the output of a particular product line was drastically changed. A fundamental change in the rate of output, or the relative proportions of labour and material in the costs would, however, as a matter of practical accounting, almost inevitably call for a review of the costing rates. If a standard costing system was not in operation it would be desirable for the accountant to assess, even on a temporary

pasis, reasonable standards for the purpose of elieving stock accounts and charging cost of ales.

One of the most important duties of the iccountant is to make a rapid assessment of the effect of a change in programme on the future ash position. Such a forecast, which in any event should be made monthly, if not weekly, s of vital importance to a business in ensuring hat adequate arrangements are made to finance. uture activities or that surplus cash is put to profitable use. Changes in a programme of proluction or sales can affect the cash position in somewhat unexpected ways. An opportunity for t business to bring about an unbudgeted expansion in sales is not necessarily followed by a rise n cash holdings. A temporary shortage of cash nay, for example, be caused by an anticipated ise in sales turnover which necessitates restocking and a substantial buying programme. Conversely, a fall in sales will not always be followed by a shortage of cash, for the situation may be quickly met by curtailment of expense and the liquidation of stocks. Particularly with regard to cash control, the movement of events will not wait on the necessarily complex process of revising a complete system of interlocking oudgets.

### Maintenance of Control

The future is undeniably one of change, and in all probability rapid change, in trading, financial and economic conditions. It is likely that success in business will depend to an increasing degree on the speed with which the management can adapt the resources under its control to the new situations which occur from time to time. Because business is concerned with the basic factors of sales, costs and profit, management needs an accurate, speedy and flexible instrument of financial control on which to base its decisions. Whilst the overall company budget will probably always remain the major instrument for long-term planning, the revision of a budgetary system may be too cumbrous a process to control a fluctuating situation.

What appears to be required from the accounting function is a service of information and forecasting more immediate than that provided by the normal process of budgeting, and capable of assessing the financial implications of changed conditions at short notice. This may mean that short-term forecasts, revised month by month, will be overlaid on the formal budgets. The formal budgets may tend to be expressed on

broader lines than has been the practice hitherto and the control of day-to-day activities may rest on the short-term forecasts which will be constantly changing.

Rapid amendments to the forecasts can undoubtedly be assisted by the widening use of mechanical methods, and eventually computers may become part of the normal equipment of an accounts office. The most advanced office systems will, however, be quite ineffective if the management team fails to keep abreast of events, and the business accountant, as a member of that team, may find himself less able to rely on the information supplied by the line functions. If he is to maintain the requisite flow of purposeful control information and forecasts, it may well be necessary for him to become aware of a potential change in markets before the sales manager.

### **New Emphasis on Training**

Whilst there can be no divorce between 'historical accounting' and so-called 'management accounting', the intense pressure of events is demanding a new race of accountants with an approach quite different from that of their predecessors who were content with the laborious presentation of past events. The situation necessitates in any substantial business that the head of the financial department shall be relieved of all routine duties so as to be free at all times to interpret the effects of change, to watch events and to predict the future. The qualities required for this purpose also suggest that a new emphasis is needed in the training of accountants for industry.

Whilst substantial developments have occurred in the examination requirements of the accountancy bodies it is open to question whether an accountancy qualification, and even considerable experience in accounting, entirely meets the needs of modern business from the point of view of financial control. An examination syllabus must by its very nature always lag a little behind events in a fast moving world. A remedy which lies in the hands of the business world is to organize carefully planned and well-managed discussion meetings for managers. Such meetings, if held frequently within each individual business and divorced entirely from daily routine, would do much to keep not only the accountant but all managers in touch with current developments in their respective spheres. In this way the implications of opportunism could be considered on a team basis.

# Investment in Stocks and Shares-II

by A. G. TOUCHE, F.C.A.

### Growth

E have seen that the flat yield from irredeemable money stocks and the redemption yield from redeemable money stocks are the significant yields. The market price of many equities puts them on a flat (or dividend) yield basis of less than the yield from 2½ per cent Consols. It follows that the dividend yield cannot be the whole story and must therefore be an imperfect measure. The long-term investor in a growth equity, like the investor in a redeemable money stock, expects to obtain growth of capital; but, unlike the investor in any money stock, he also expects to receive growing income from his investment. Serious attempts to measure growth have been forced on investors in recent years by the reverse yield gap; it is now necessary to use some of the expected growth to justify the purchase of an equity in preference to the purchase of a money stock. We shall examine the concept and valuation of growth by treating 21 per cent Consols as a growth stock, and thus eliminating confusing side-issues.

34. Let us assume that the income from 2½ per cent Consols during the next year will be £2 10s per £100 nominal of stock, but that in all subsequent years it is 4 per cent greater than in the previous year - for example, in the second year from now, it will be 104 per cent of £2 10s. What would be a reasonable price for 2½ per cent Consols on these terms? They might reasonably be worth 100, giving a flat yield of 22 per cent on the first year's income. If they remain on a 21 per cent flat yield basis, their price will increase each year by 4 per cent compound. Their annual benefit to the investor will be 2½ per cent gross flat yield, growing at 4 per cent compound, and 4 per cent capital growth; these can be combined and called a growth yield of 61 per cent. Curiously enough, to a permanent investor the present value of all the future income discounted at 6½ per cent is 100. Six and a half per cent is the gross growth yield; the net growth yield is  $6\frac{1}{2}$  per cent to the oper cent taxpayer,  $5\frac{1}{2}$  per cent to the 40 per cent taxpayer, and  $4\frac{1}{4}$  per cent to the 90 per cent taxpayer. Growth yields can be compared with flat yields from irredeemable money stocks and with redemption yields from redeemable money stocks.

35. The fictitious example of a growth money stock illustrates the theory of growth that is applicable to equities. Unless the yield basis changes, income and capital value grow pari passu. The investor holds growth stocks because he is prepared to give up some immediate income for bigger future income and its

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attendant capital growth – both are the reward of present abstinence. If the same rate of growth is expected to continue for ever, the net growth yield is the next year's rate of income (after tax) plus the rate of growth. And all growth yields are the same as the rates at which all future dividends must be discounted to give the present market price. If all the expectations from an investment are fulfilled, the true return to an investor is the same however long he keeps it, illustrating that income and capital values are reflections of one another.

36. It would be unwise to expect from an equity a high rate of growth for an unlimited number of years; the rate of growth is very difficult to quantify, starting with a low degree of certainty and becoming even less certain the longer the view is extended. The tables in Appendices 2 and 3 have been prepared by a leading firm of stockbrokers, who have kindly given permission for them to be reproduced. They show growth yields on the assumption that the initial rate of growth will last for five or ten years and that the rate will afterwards be 3 per cent a year. The 3 per cent is regarded as a reasonable assumption based primarily on the increasing capital employed derived from retained profit. The alarming heading 'Dividend/ price ratios per cent' means 'flat yields based on next year's estimated dividend'; it has been devised to avoid the use of the word 'yield', which can be misleading as it implies the total benefit. The tables can be used in two ways:

- (a) The rate of growth is estimated and the growth 'yield is ascertained to see whether it seems reasonable. For example, if the flat yield on next year's dividend is estimated at 2½ per cent and the rate of growth at 20 per cent for the following four years, the gross growth yield is 7.4 per cent.
- (b) The required growth yield is decided by reference to the income's quality, the yield from 2½ per cent Consols etc., and the growth rate postulated by the present price is ascertained to see where it seems reasonable. For example, a growth yield of 9 per cent is required and the flat yield on next year's dividend is 3 per cent; this postulates five years' growth of 25 per cent, which may or may not seem reasonable.

37. It is obvious that the higher the rate of tax the more valuable is growth as opposed to current income. But the lower the current yield at which an investor buys a share and the higher the rate of growth which he is implicitly forecasting, the greater the risk of loss should his estimate of growth prove too optimistic. For example, if the dividends on a

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specific share are thought likely to grow at 20 per cent for ten years, should the dividend yield be  $1\frac{1}{2}$  per cent (growth yield 8 per cent) or 3 per cent (growth yield 12 per cent)? A 50 per cent difference in growth yields causes here a 100 per cent difference in the present prices. And the price of an alleged growth stock that stops growing can tumble sadly.

- 38. Let us now examine the basis of growth, first defining certain terms:
  - (a) 'Growth' means growth in dividends and earnings per share, as adjusted for capitalization issues and the bonus element in rights issues.
  - (b) 'New shares issued' means effective new shares without any bonus element (i.e. shares issued at the full market price).
  - (c) 'Percentage earned on equity capital employed' means earnings available for the equity expressed as a percentage of the assets attributable to the equity. Where the equity benefits from earnings on assets attributable to fixed-interest capital in excess of the fixed interest payable, the excess earnings are part of the equity earnings on equity capital employed. Where reference is made to increased equity capital, it is assumed that the gearing is maintained by the issue of further prior charges. Assets (and, similarly, capital employed) means true, not book, assets, so the correct figures are normally unobtainable.
- 39. A company that distributes all its income can grow in one or more of the following ways:
  - (a) It can increase the percentage earned on total capital employed.
  - (b) It can increase the percentage earned on equity capital employed by issuing prior charges, whose rate of interest is less than the percentage earned on the new money. This can be achieved even with a declining rate of earnings on total capital employed.
  - (c) If the earnings yield from the equity at market price, after the price has reflected the rights issue, is less than the percentage earned on equity capital employed, a rights issue and maintenance of the percentage earned on equity capital employed will cause growth in earnings per share. This can be looked at in another way: if the market valuation of the equity is greater than its asset value (not to be confused with book value), additional equity assets will be valued by the stock-market at a similar premium where the new assets are as fruitful as the old.
- (a) and (b) are obvious, but (c) is complex. If our company earns 20 per cent on equity capital employed and is valued on a dividend (and earnings) yield basis of 4 per cent, the market capitalization of the equity is five times its asset value. Let us see what happens if the equity capital employed is increased by 10 per

cent and the 20 per cent earned on it is maintained:

	rights	rights					
	issue	issue					
Equity capital employed	100	110		•		•	
Market capitalization of equity	500	550					
Earned on equity capital employed	20 (=20%)	22 (=2	0%)				
Number of shares in issue	N	102% of	и (	i.e.	N+	10% of 5	<u>_N</u> )

Because the market capitalization of the equity is five times its asset value, a 10 per cent increase in the equity's assets (and earnings) requires new shares amounting to only 2 per cent of the old shares in issue. A 2 per cent dilution of the equity goes with a 10 per cent increase in the earnings, giving growth in earnings per share of nearly 8 per cent (\frac{1102}{102}\text{ per cent} = 100 \text{ per cent}). The lower the earnings yield, the greater the ability to use new money fruitfully that is normally postulated.

40. Similar reasoning applies to a company that retains some of its earnings. The increased equity capital employed arising from retentions reduces the amount that must be raised by issuing more shares. If our company retains three-quarters of its equity earnings (i.e. the dividend yield is 1 per cent and the earnings yield 4 per cent), the equity capital employed (and equity earnings) will increase each year by 3 per cent, less income tax, of the market value of the equity. With income tax at 40 per cent and the market value of the equity five times the asset value, the equity's assets (and earnings) will grow each year because of the retained earnings by 9 per cent (60 per cent of  $5 \times 3$  per cent). By their company's ploughing back each year 1.8 per cent (60 per cent of 3 per cent) of the market value of their investment, the shareholders achieve growth in earnings (and assets) per share of 9 per cent.

41. In the above examples of companies expanding by making rights issues or by retaining profit, we saw that equity assets in the hands of the company had a market value of five times par, giving an earnings yield of 4 per cent. This postulates that the company can make fruitful use of enough new money (whether obtained from rights issues or from retentions) to give the earnings per share a growth rate sufficient to justify the valuation. The opposite type of company, where the equity assets are valued by the market at less than par and the earnings yield on the equity is greater than the percentage earned on equity capital employed, achieves the opposite results. New equity money, whether from rights issues or from retentions, is worth to the shareholder less than he puts or leaves in the company; and the company piles up unfruitful assets, thus becoming increasingly ripe for a take-over.

### Psychology

42. Like other occupations, investment is influenced by psychological factors. As accountants we tend to be interested in book values, and these are a frequent source of confusion. If an investor is considering whether to retain his holding, to buy more, or to sell, he should consider the reasonableness or otherwise of

he present market price and of the market value of is present holding in relation to the value of his portfolio; but he should forget the book value, or cost price, of his present holding: what he happened to pay at some date in the past has no bearing on whether he present price is right. An investor who lets book values influence his policy is like a roulette player who magines that particular past results at the gaming able are a guide to particular future results. Someimes an investor decides to sell because he can realize 1 capital gain, and not to sell if he would realize a loss; this causes him to end up with a portfolio consisting entirely of mistakes. Backing one's losers is sometimes called 'averaging': 500 shares are bought at 30s, the price falls to 20s, and 500 more are bought to average the book cost to 25s. Twenty-five shillings does not look as bad as 30s in comparison with the market price of 20s; but the reason for the purchase should not be 'averaging' - that can never be a good reason - but that the shares are good value at the present price.

- 43. It is very difficult not to watch the market performance of recently bought shares more closely than that of shares bought long ago, and possibly showing handsome appreciation over cost. A recent purchase was recent action and is watched and commented on; yet the conscious or unconscious recent decision to retain an old holding, being inaction, is ignored: but both decisions have the same significance. The same foible tempts the manager of other people's money to refrain from selling an investment that shows good appreciation over cost but which he thinks is too high. If he sells he once shows to his client a good realized capital gain; but if he retains, he can at every valuation show a good unrealized appreciation instead of a recently bought investment that may even show depreciation. If a fund stays fully invested, there is no practical distinction between realized and unrealized appreciation: the whole fund is subject to the risks of the market, regardless of any changes of investments.
- 44. Glamour exerts a subtle influence. At times particular industries or shares are in or out of fashion, and the market price is probably too high or too low; investors tend to have a strong herd instinct and to think and act alike: they tend to overdo particular courses of action. Names of companies have their influence: 'electronic' in a name might at one time have great appeal; at another it might adversely influence an investor who has lost heavily in a company whose name contains the word. The corporate image of a company, derived from prestige advertising or other sources, influences the subconscious and may impair judgement.
- 45. Many investors are influenced by the mere price of a share, regardless of its value. Two investments may be exactly comparable, apart from the price of one being more than that of the other. Often the investor prefers to have more of lower priced to fewer of higher priced shares; hence the subdivision

of shares into 5s or even lower nominal values, and the expense of trivial holdings in share registers.

46. A frequent misconception is the idea that there is a distinction between the financial interest of a company and that of its shareholders, apart from anomalies arising from tax. Thus we may be told that when its shares are priced on a 3 per cent dividend yield basis, a company should make a rights issue, instead of issuing a 7 per cent debenture. Subject to prudence, the only criterion should be what will increase the earnings per share most. With profits tax at 15 per cent and income tax at 40 per cent, the cost of a 7 per cent debenture in terms of gross equity earnings is 5½ per cent. The earnings yield of the 3 per cent dividend yielder may well be more than 5½ per cent, so the apparent saving by a rights issue is nonexistent. But the debenture's interest is fixed, whereas the shareholder hopes that his dividend will increase; so, taking just the dividend yield of 3 per cent and ignoring the earnings yield, we must add on the hoped-for rate of growth before we can compare the dividend yield with the  $5\frac{1}{4}$  per cent cost of the debenture. In this example, we could perhaps compare a growth yield on the share of 8 per cent with the 5½ per cent cost of the debenture; but it would be even more correct to add on the rate of growth to the earnings yield. Perhaps a rights issue at a time of high interest rates is the best method of financing growth if it is intended to reinstate the gearing when interest rates are lower; but the right conclusion does not validate the wrong reasons.

#### The General Investor's Viewpoint

47. Each investor must make the choice between money stocks, equities, or a mixture of the two. In money stocks he can achieve certainty in terms of uncertain money; in equities he cannot achieve certainty even in terms of money, but he hopes to achieve better long-term results. Creeping inflation seems likely to stay with us permanently; as money gradually erodes, the money value of equity capital employed should increase; and maintenance of even a basic minimum, or survival, percentage earned on the increasing money value of the equity capital employed will mean increasing money earnings for the equity. In addition, real growth in the economy, with or without inflation, should cause real equity growth. In essence, the choice is between units of measurement, whose supply can be increased by mere ledger entries, and tangible possessions, which we hope can be profitably employed. The investor who has liabilities quantified in money may like the safety of assets fixed in terms of money; the investor without liabilities to match against his assets must decide whether the hope of greater reward justifies greater money uncertainty, though possibly not greater real risk. The short-term investor, who will need money for other purposes within two years or so, may prefer the certainty of a suitable money stock to the short-term risks of the equity market, even



though he is convinced that the long-term risks are outweighed by the long-term advantages.

48. The risks of particular equity investments can be overcome by diversification of the portfolio. If the fund is not large enough to have, say, twenty-five separate investments, investment trust companies and unit trusts provide a ready way to diversification. They are particularly suitable for the individual or the trustee who wants to be an inactive investor. Investment trusts with good gearing are excellent for the investor to whom the highest immediate income is not necessary; but if they are geared by debentures. they tend to have a low net United Kingdom rate. A unit trust with a higher yield may be better for the fund where immediate income is of greater importance, though it lacks the advantage of gearing. And unit trusts never bother their holders with rights issues.

#### The o per cent Taxpayer's Viewpoint

- 49. Not being liable to tax, the o per cent taxpayer may prefer the certainty of high yield to the uncertainty of future growth. With redeemable money stocks he will, subject to his choice of redemption dates, choose the highest gross redemption yield. If he thinks that long-term interest rates will fall, he may choose a low running yield in order to secure the high gross redemption yield on the effective saving each year of part of the profit on redemption; or he may prefer irredeemables. If he thinks that long-term interest rates will rise, he will avoid long-dated stocks and irredeemables, and may prefer the highest running yield, or perhaps he will place his money on deposit.
- 50. If the price of equities is governed by the standard rate taxpayer, higher-yielding equities should theoretically be better value to the o per cent taxpayer than lower-yielding equities. He must, of course, watch for low net United Kingdom rates, which can materially reduce his yield. In practice, if he is prepared to accept the uncertainties of growth in the hope of better long-term results, he may well do better in low yielders than in high yielders. But the latter are logically his best chance of good results. Perhaps a mixture of growth stocks and 'yield sweeteners' is his answer.
- 51. Because the o per cent taxpayer can recover income tax on distributed profit whereas the company he invests in suffers income tax on retained profit, a company making a full distribution and financing growth by raising new money should, theoretically, be better value to the o per cent taxpayer than one that retains a high proportion of its profit.

#### The 40 per cent Taxpayer's Viewpoint

52. As the rate of tax rises, the emphasis inevitably changes from current income to growth. A taxpayer invests for growth to maximize his wealth; he does not mind whether his wealth increases from savings out of income or from growth. If income is taxed at

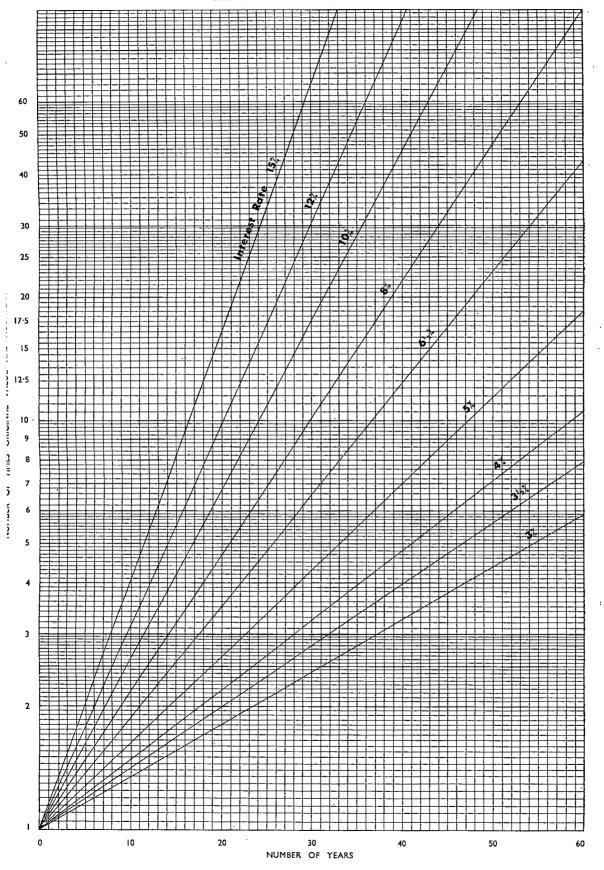
- 40 per cent, £1 of capital growth is worth 33s of income. Or he may wish to defer income until retirement when his need for it is greater: he accepts a low flat yield now in the hope that by the time he retires it will have grown into something worth while, on which he may pay a lesser rate of tax. He would be investing for long-term income with no intention of realizing the capital growth at any date: that is the basis on which an investment trust company would buy low-yielding equities. The proportion of his funds that are put into equities must be decided by each individual, but he must be able to raise money in an emergency that coincided with a slump in equity values. Perhaps ability to borrow on the security of a life policy is the best means of providing this essential liquidity.
- 53. The 40 per cent taxpayer will be particularly affected by tax considerations, such as double tax relief. An individual's investment decisions will be affected by his rate of tax on any additional income, but his double tax relief rate will be roughly his average rate of tax. If his double tax relief rate is 5s in the £, the yield to him before tax from, for example, American Telephone and Telegraph, will be 113 per cent of the apparent flat yield. The particular circumstances of the individual overseas investment must be considered in relation to those of the particular investor; and the problem is complex.
- 54. Apart from double tax relief, an important question for a company making an investment is whether the income is franked or unfranked for profits tax. With income tax at 40 per cent and profits tax at 15 per cent, unfranked yields must be reduced by 25 per cent before they can be compared with franked yields. This is most easily proved by comparing net with net: £100 unfranked gross leaves £45 net, which is 25 per cent less than the £60 net from £100 franked gross.

#### The 90 per cent Taxpayer's Viewpoint

55. The taxpayer with a marginal rate of 90 per cent should not ignore dividend yield, although he is primarily concerned with growth. At first it might seem that any dividend yield (and therefore any price) is justified if there is assured growth; but the price will not hold in the long run if it is unreasonable. As we saw when we examined growth, the valuation of high (but uncertain) growth is exceedingly difficult. With dividend yield 90 per cent valueless to him, the 90 per cent taxpayer can seek reasonable earnings yields accompanied by low dividend yields. The earnings ploughed back in a profitable company should ensure long-term growth; and the reasonable earnings yield is some safeguard against a fall in price following a levelling-off in growth.

#### The Trustee's Viewpoint

56. Where there is a life-tenant and a remainderman, different people have an interest in income and in capital. Sometimes investors, to whom belong both



the income and the capital, object to a purchase of a share yielding 3 per cent and growing, it is hoped, at 8 per cent a year, on the grounds that even in the ninth year their yield on cost will be only 6 per cent; they forget that by then they should have some capital growth. But the argument is valid from the viewpoint of the life-tenant, who receives only the income and has no direct interest in the capital value or in the size of the income after his death. Appendix 4 shows the effect of growth at various compound rates per cent. From it can be seen how long a lifetenant must wait to receive the required income at various yields and growth rates. For example, if the yield is now 3½ per cent and 6½ per cent is required, the life-tenant must wait five years if the growth is at 15 per cent a year and twenty-three and a half years if the growth is at 3 per cent a year. Appendix 4 is also useful for estimating capital values at future dates, where a constant growth rate is forecast instead of an initial growth rate for five or ten years reducing to 3 per cent after the initial period. Where the latter is assumed (i.e. where appendices 2 and 3 are used), the dividend yield on cost and the estimated capital value in the last year of the initial period can be calculated: for example, a 4.06 per cent yielder on next year's dividend is expected to grow at 15 per cent for the following four years and at 3 per cent thereafter, giving a growth yield of 9 per cent; in the last year of the initial period the dividend yield at the then market price will be 6 per cent, being 3 per cent less than the continuing growth yield; Appendix 4 shows that £1 becomes 35s after four years' growth at 15 per cent compound, so our 4.06 per cent yield on cost has become 7.1 per cent. The market value will, in the last year of the initial period, be 118 per cent (i.e.  $\frac{7\cdot 1}{6\cdot 0}$  per cent) of the purchase price, thereafter increasing at 3 per cent a year compound.

57. The extent to which a trustee should invest for current income or for growth depends on the circumstances. The financial status of both the life-tenant and the remainderman will influence him: there is little point in depriving a poor life-tenant of income in order to improve the income and capital of a remainderman to whom additional wealth has little utility. The classic trust limited to money stocks has, by its stagnant income and the post-war demand inflation, deprived the life-tenant of a substantial part of the purchasing power of his income from the trust; it is not reasonable for a trustee materially to reduce the income unless the life-tenant thinks that present abstinence will be adequately rewarded in the later years of his life. But where there is a new trust, or a new life-tenant comes on to the scene, it would seem reasonable for the trustee to take the view that the long-term rate of interest, like the income from a mining share, allows for some amortization of capital, and that the life-tenant is not entitled to have initially the full long-term rate of interest. Four per cent might be a reasonable initial yield from a fund where the life-tenant's and the remainderman's financial needs are similar, and this will make possible some sacrifice of present income for the sake of growth. If the life-tenant and remainderman will reveal their circumstances to the trustee and agree an investment policy, well and good; otherwise the trustee must act reasonably. Having decided the yield he wishes to achieve, the trustee must consider whether the maximum permitted proportion of equities, and then whether growth or income stocks, will be in the long-term interests of both life-tenant and remainderman.

#### Conclusion

58. The theory of investment will never be a complete guide to practice; the inadequacy of company accounts alone will ensure this. Even were a complete analysis possible, some unforeseen factor possibly a stampede by other investors - might well upset the most careful and shrewd plans. The inadequacy of data means that intuition and luck will always count, and an art will be saved from degenerating into a science. (Concluded.)

## Weekly Notes

#### PROFESSIONAL AMALGAMATIONS

AST month at the Oxford summer course of The Institute of Chartered Accountants in England and Wales, one of the speakers stated that 19 per cent of all Institute members practising in the United Kingdom were 'sole practitioners'. In the legal profession the proportion applicable is appreciably higher. At The Law Society's annual national conference at Torquay last week, Mr Henry B. Lawson, in his presidential address, announced that the number of solicitors in practice as one-man firms formed 24 per cent of the profession. This percentage, for the first time in many years, has fallen and Mr Lawson attributes the decline to the modern tendency for larger units in business, commerce and the professions caused, in turn, by the economic necessity to employ both men and machinery as effectively as possible. With the law growing more complex, he also questions whether the one-man firm can provide the public with the full range of services it requires and suggests that solicitors should not be allowed to practise on their own until they have served a period either as an assistant or in partnership.

While comparable statistics are not readily available it would seem from our 'Professional Notices' column that the same trend towards amalgamation is happening with accountancy firms and for the same reasons. It is not so many years ago that the idea of specialization had as many enemies as advocates but it is now generally recognized that, with an ever-expanding repertoire being demanded of the professions, a full orchestra is better than a one-man band, however, much of a virtuoso the latter may be.

## PROFESSIONS AND THE COMMON MARKET

HERE is an important professional aspect to the I integration which is going on within the European Economic Community. All countries have their own professional standards, systems of examination and methods of recruitment. It is by no means always a straightforward matter when a professional man in one country of the Common Market seeks to practise in another. Prior to the Treaty of Rome it was probably impossible in most professions for a man to practise in two countries without having satisfied a board of examiners in both - an undertaking which few professional men would care to assume. Efforts have been made within the European Economic Community to establish common standards and practices in certain professions, for example in the case of architects, but progress is slow.

The subject was broached by Sir Edwin Herbert, a past president of The Law Society, last week in addressing The Law Society at Torquay. He said that in some cases British Courts, even the House of Lords itself, might not be able to come to a final conclusion without first obtaining the opinion of the Luxemburg Court and that administrative practices, amounting in some instances to requests to Parliament for the repeal or amendment of statute law might be involved. It would appear that Sir Edwin was going a good deal further in his assessment of the impact of the Treaty of Rome than did the Lord Chancellor recently.

Sir Edwin said that ratification of the Treaty of Rome would be an act of sovereignty, not a surrender of sovereignty. He went on to say that British lawyers would have to widen their knowledge and accustom themselves to the idea that they would have to deal with a new kind of law if this country goes into the Common Market. There is, of course, not only the problem of the legal profession having to adjust its idea to the legislative acts made by the European Economic Community in Brussels but also of taking into account the attitudes of lawyers on the Continent who have been trained in Roman law.

Altogether there are important professional implications for this country's entering the European Common Market and it will be surprising if any of the more established professions are not faced with important problems of adjustment and integration.

#### REGISTRATION OF CHARITIES

THE Home Secretary and the Minister of Education, acting under subsection 10 of section 4 of the Charities Act; 1960, made on September 28th the order necessary to effect completion of the compulsory registration of charities in England and Wales provided for by that section. When we commented in a leading article in our issue of April 14th last, on the order which extended registration to,

The Charities (Registration) (Commencement No. 4) Order, 1962 (S.I. No. 2166 of 1962).
The Charities (Registration) (Commencement No. 3)

Order, 1962 (S.I. No. 698 of 1962).

amongst others, national charities, it was thought that two more orders would be made to complete the process of registration. In fact the latest order covers Wales and the whole of that part of England not yet subject to compulsory registration, but names two appointed days for the purposes of subsection ro. In the case of the administrative counties (thirteen) and county boroughs (eighteen) in the Midlands (which for this purpose stretch as far south-west as Monmouthshire) and the whole of Wales, the order requires registration by November 30th next. In the case of the rest of England, that is to say, the geographical counties of Cumberland, Durham, Lancashire, Northumberland, Westmorland and Yorkshire, registration is to be completed by February 28th, 1963.

It could hardly have been imagined, when the Charities Act was passed, that the seemingly vast task of registering charities throughout England and Wales could be taken in hand so quickly. That it has been possible to provide the necessary administrative machinery redounds greatly to the credit of the two departments concerned. There cannot, however, help being a strong suspicion that their work has been made easier - in a way which neither would desire by the failure of many trustees to make the applications for registration which the statute requires of them. With the making of the last registration order the completion of the central register of charities provided for by subsection (1) of section 4 becomes theoretically possible, but there are undoubtedly many gaps in it at present which should not be there, and until theory becomes fact there will not be that full record of charitable institutions which is potentially so valuable to charity as a whole and hence to the public at large.

#### LOCAL AUTHORITY BORROWING

URING the second and third quarters of 1961 Othe proportion of temporary borrowing made by local authorities in Great Britain, which was repayable at call or within seven days, rose to 69 per cent. The increasing reliance of many local authorities on ultra short-term finance has been a matter for concern, not so much perhaps among the local authorities themselves as among Government financial circles. Over the past year, however, such short-term finance has diminished slightly in importance. Of £1,210 million of temporary borrowing outstanding at end June 1962, just 60 per cent, or £709 million, was in the form of call or seven-day money. The continuously rising needs of the local authorities during the past year seem to have been met to a greater extent by borrowing for periods between seven days and three

This information represents the first fruits of the new data on local authority borrowing which appears in the October issue of *Financial Statistics*. Of equal interest are the latest figures of hire-purchase finance

<sup>&</sup>lt;sup>1</sup> H.M.S.O. 7s 6d net.

houses' activities. Of almost £820 million assets, hirepurchase credit in its various forms represented over £560 million, while advances and loans at end June 1962 at £114 million showed little change over the past six months. The main source of funds available to the finance houses engaging in this class of business is deposits, which account for over 40 per cent.

#### COTTON IMPORTS UNTIL 1965

THE President of the Board of Trade has told the Cotton Board that cotton textile imports from Hong Kong, India and Pakistan will continue to be subject to the same ceilings for cloth and made-up goods as at present until the end of 1965. Imports of yarn will be limited to the rate of imports in 1961.

Of the three eastern countries concerned, Pakistan is at present the most difficult case to deal with. That country has indicated that it is reluctant to agree to

enforce limitations of exports to this country in view of its need to increase its import earnings. The knowledge that India and Hong Kong will accept the ceilings (the Government has hinted that it will ensure that, in fact, Pakistan imports do not exceed the ceiling) should give the Lancashire cotton textile industry greater confidence in its short-term future and a short extension of the time it has to put its house in order.

Speaking at the Cotton Board conference last week-end the retiring chairman of the board, Lord Rochdale, said that constant complaints by the Lancashire industry of its vulnerability to imports of foreign cloth were to be depreciated. Not only did such incessant talk in Lancashire lower morale in the industry but it put the industry in a needlessly unfavourable light in the City and financial circles generally.

## This is My Life ...

by An Industrious Accountant

CHAPTER 143

THE office door opened noiselessly and a bronzed, bearded face grinned round the edge with a flash of white teeth. I didn't recognize him for a minute. Then he advanced, a broad-chested, husky he-man whose salaam aleikoum fairly rattled the window-frames, and recognition dawned. It was my erstwhile junior accountant, Harry, just returned from a two-year tour in North Africa and looking twice the man he was when he left us.

It's extraordinary how service abroad matures accountants for the better. Harry had been a cheerfully unsophisticated character, but responsibility and freedom beyond the skyline had changed all that. It was fascinating to hear his story.

His first lucky break came when he found the salary was even better than had been indicated by the advertisement in *The Accountant* that sparked off his ambition. There was also a kit subsidy, plus a disturbance allowance, male, single, extra-European zone, as listed in his new training manual. He had sloughed off suburbanity with his navy-blue gent's natty suiting when he donned his first lightweight tropical garb; he had breathed internationalism when his plane was grounded by fog *en route* and he saw the grandeur that was Rome.

It came as a shock to find his new office was a tent sited in desolate windswept desert, his new lodgings comprised a caravan parked near the workers' canteen. But his cost-conscious mind rejoiced at free digs, and his bank balance began to swell in the absence of expensive amusements. He was site-accountant in name, but that included being cashier

and payroll supervisor and financial administrator and almoner. It broadened his human sympathy when he found his non-accounting compatriots confiding their currency exchange troubles to him; it sharpened his intellect when he had to study local as well as United Kingdom tax law. He was far from overworked, and the White Man's Burden was only a joke to him, but he learned leadership perforce. After all, some forty native clerks were raw from the cameltracks, and touchingly hungry for literacy and hygiene; somehow, he took on their schooling also.

The advertisement didn't explain that the job was a seven-day, twelve-hour one in practice. After all, you can't refuse to help when a harassed technician is knocking at the caravan door, in an emergency; anyhow, there was little else to do and the sun was too hot to encourage frivolity. But in return, he was credited with Sundays, plus assorted local State holidays, so he accumulated a stockpile of odd-days towards his leave. The lad who had rarely looked beyond Blackpool or Butlin's wandered round Crete and Cairo instead, and went shooting at lions instead of bottle-tops.

They wanted him for another two-year tour, on a senior level, he explained, and he had an even better offer from a West African Government agency, but he hadn't decided. He looked at me rather appealingly. He'd like to stay at home. There was a girl he had been writing to...they'd looked over a semi-detached bungalow on the new estate...he'd saved quite a bit. In short, could we ever take him back? He wasn't to guess I'd just been planning to offer him a job with us.

Well, the personnel director was outside so I invited him into my room there and then for a chat. Unfortunately, Harry had thoughtlessly put a stuffed souvenir on my desk, a six-inch hairy black tarantula of revolting aspect. Prinny nearly had a heart attack when he saw it by his elbow as he was talking, so we had to postpone Harry's job application indefinitely.

# Finance and Commerce

#### Salvage

THE accounts of Francis Sumner (Holdings) for the fifteen months to March 31st, 1962—reprinted this week—reflect the salvage operation put into effect by a new board of directors under the chairmanship of Mr C. C. Miller, F.C.A. The company was earlier caught up in the affairs of Hide & Co, in which it had a considerable share interest. The former chairman of Francis Sumner was also chairman of Hide and the Sumner interest in Hide was sold to the Selincourt group before Mr Miller came on the scene. The sale is reflected under quoted trade investments in the accounts and in Note 7.

The accounting date was extended to cover fifteen months to March 31st, Mr Miller explains, in view of a number of items which had to be dealt with which made it impracticable to present an accurate picture earlier.

The main loss item included in the accounts is in respect of trading losses in two subsidiaries amounting to some £386,000 of which about £100,000 had been treated as a capital loss in the previous year's accounts. On the advice of the reporting accountants, Peat, Marwick, Mitchell & Co, the whole of the loss has now been treated as a trading item.

#### Reorganization

Peat, Marwick, Mitchell & Co were invited last March 'to report on certain matters'. Their report has now been received, Mr Miller states, and is being examined by the company's legal advisers, but Mr Miller adds 'we shall not use our time in any unproductive delving into the complicated past affairs but concentrate our efforts on increasing profits'.

That concentration has already led to the reorganization of the managements of three of the larger companies of the group. Management reorganization, as a whole, is now almost completed and the group is working at a profit with 'satisfactory results' expected for the current year. Head office has been moved to cheaper premises and head office staff and overheads have been cut to save about £20,000 a year in head office expenses alone.

Textiles in the form of rainwear, dressing-gowns, ladies' dresses and children's wear, as well as woven labels, embroidery and trimmings, form the com-

pany's principal interests. Non-textile interests are in electrical goods and television rental, both of which are doing well.

Given two or three years of normal trading conditions Mr Miller expects to achieve 'good results'. He is sure that 'left to do the job and with the continued support of Barclays Bank and the bill market we can be sure of success'.

#### Metal Profit and Loss

NOT every profit and loss account has to be read in such close conjunction with the directors' report as that of Capper Pass & Son Ltd, the metal refiners. The profit and loss account opens with the trading account balance of £1,000,557, including profit from rise in metal prices, and compares with a figure of £420,533 in 1960-61 reached after a loss from a fall in metal prices.

The metal price profit and loss is explained in the directors' report. The transfer of £170,000 to market reserve shown as a deduction from the net profit of £418,482 is in line with the board's policy of transferring from profit to market reserve the approximate net (after tax) equivalent of the estimated stock profit which in these accounts was £368,000.

After eliminating the estimated stock profit and investment and exceptional income the directors calculate that the smelting profit, before tax, for the year was £528,000 compared with £334,000, and that, of course, is a clear guide to the real operating earnings of the company. It was on that profit basis that the ordinary dividend was raised from 10 per cent to 11 per cent.

#### Adequate Reserve

The profit from the rise in metal prices resulted mainly from a large increase in the price of tin as applied to the company's stocks between the beginning and the end of the financial year. Since the end of the financial year the tin price has fallen again quite considerably 'and it is likely', the directors state in their report, 'that we will show a market loss during the current year'. The directors, however, are satisfied that the market reserve of £578,000 is adequate in relation to the value of the stock.

Smelting profits benefited from a higher throughput of material and from some success in efforts to hold down costs despite continuing inflation. Net capital expenditure on fixed assets during the year was £145,190, made up of £17,595 on buildings, £79,079 on plant and equipment and £48,516 under the heading of 'increase in capital work in progress'.

At the end of the financial year, further capital expenditure estimated at £185,000 had been sanctioned and this, like the bulk of the past year's spending, relates to an extensive programme for the modernization and integration of plant at the company's Melton works at North Ferriby, Yorkshire.

FRANCIS SUMNER (HOLDINGS) LIMITED AND ITS SUBSIDIARY COMPANIES CONSOLIDATED PROFIT
AND LOSS ACCOUNT for Fifteen Months ended 31st March, 1962

15.1 31st GROUP TRADING PROFIT after charging and crediting the items inset below (see Notes 1 & 2)	15 months ended 31st March, 1962 E	Year ended 31st December, 1960 £ 318,109		15 months ended 31st March, 1962 • £ 246,212	Year ended 31st December, 1960 £ 261,859 (Profit)
Head Office and Secretarial Expenses  Directors' Emoluments	46,451	45,531	Add: Subsidiary Companies Freierence Dividends less tax Appropriation to Subsidiary Company's Capital Reserve Fund	15,014	14,870
Depreciation and Amortisation:—  General  Television Receivers on Rental	99,188	93,186	Deduct: Lossas retained in Subsidiary Companies BALANCE OF LOSS in Holding Company	261,892 107,776 154,116	246,539 58,460 (Profits) 188,079 (Profit)
Gross Income from Investments Profit on Sale of Fixed Assets	8,949 510	17,548	f 5% less tax	58,690 <u>95,426</u> 38,703	25,421 213,500 58,054
1	17,439	£.4.4.37	rinal Divident of 1.25% tox	38,703	154,810
Add: Provision for Pensions Payable by a Subsidiary Company no longer re quired	15,000	1   1	olding Company anies at 1st January, 1961 9 Subsidiary Companies sold	93,265	28,690 (Surplus) 96,100
Deduct: Payments for Termination of Service Agreements and Compensation for Lose of Office:	82,067	318,109	in the year Transfer from Capital Reserve (see Note 7) 9	1,012 99,998	61,295
	33,250	1	Provisions against slow moving stocks pur- chased before 1st January, 1961	89,084	1
Other Employees	3,850		Taxation underprovided in previous years 2	23,586	-
Removal Expenses of Subsidiary Company Pany Advances to and Payments on behalf of Former Subsidiaries written off (see Note 3)	8,000 216,084	1 1	Add: Losses for the period retained in Subsidiary Companies	120,415 107,776 228,191	34,805 58,460 93,265
Provision for Contingent Liability under Guarantees of Hire Purchase and Rental Agreements of former Subsidiaries (see Note 9)	50,000	1			
Other Advances provided for or writ- ten off (see Note 4)	353,877				
lote 5)	28,241	44,500 (Charge)			
Deduct: Profits Tax payable by Subsidiary 2,643 Companies 25,798 Companies Companies 25,798 CROUP LOSS AFTER TAXATION (carried forward) 246,212	25,598 ward) 246,212	56,250 11,750 261,859 (Profit)	TOTAL DEFICIT PER THE CONSOLIDATED BALANCE SHEET	£362,320	£151,955 (Undistributed Profits)

FRANCIS SUMNER (HOLDINGS) LIMITED AND ITS SUBSIDIARY COMPANIES CONSOLIDATED

BALANCE SHEET at 31st March, 1962

27th;41962	ACCOUNTANT	547
31st December, 1960 £ £ £ 640,440 890,787 2,052,435	22,979 490,190 3,011 532,906 16,726 651,725 6,000 2,344,945	£4,930,286
alst March, 1962 f gregate reciation Net 15,712 644,477 11,321 807,230 11,286 727,885 38,319 2,179,592	76,387	£4,650,357
31st Mark f Aggregate Depreciation 15,712 211,321 411,286 6638,319	22,177 1,595,015 1,595,015 580,935 e 2,576 1,215,852	:
At Cost or Valuation FIXED ASSETS Freehold and Leasehold Land and Buildings (see Note 12) 669,189 Plant, Machinery, Vehicles and Equipment. 1,018,551 Television Receivers on Rental (see Note 6)	II. INVESTMENTS AT COST  Trade Investments: Unquoted (market value f990 £297,689) Quoted Investments (other than Trade Investments) (market value £35,727) Life Assurance Policies (surrender value £11,574) Life and other Debtors Trade and other Debtors Trustees of Staff Share Purchase Scheme Suspense Account arising on Consolidation (see Note 13)  C. C. MILLER  P. F. H. TOWLE	
31st December, 1960 £ 200,000 2,000,000 £2,200,000 1,263,762	774,795 2,038,557 2,038,557 151,955 (Surplus) 2,190,512 133,132 15,000 15,000 27,087 27,087 5,000 5,000 5,000 5,000	2,183,013
31st March, 1962 £ £ £ £ 200,000 2,000,000 £2,200,000 £2,200,000	626,837 1,890,599 362,320 1,528,279 38,199 390,876 5,000	2,624,057
FRANCIS SUMNER IITED % Cumulative Pre- hares of £1 each Ordinary Shares	ccount  IT AND LOSS ACCO  IT AND LOSS ACCO  I TAX  1963  P a Subsidiary  I as Subsidiary  I as and Rental Agree- mer Subsidiaries (see  HOLDERS' INTERES  I'GEE Note 8)  OF A SUBSIDIARY  Artly Secured)  Id Advances (Partly  Note 6)  Ind Accrued Charges	Current Taxation Final Ordinary Dividend (Net)

Company 558,761

The movements on General Capital Reserves are as follows:—Group

۲.

26,450

29,386

Company's and

Appropriation to Subsidiary ( Capital Redemption Reserve Profits on Redemption

860

1,750

Add: Surplus on Sale of Leases Profits less losses on Sales of Subsidiary

Balance at 31st December, 1960

ų

193,269

279,952

1,440

5303,317

193,269 Ì

72,454 193,269

pre-acquisition profits

5393,692

28,200

196,989

583.269

2,789

djustments to Cost of Control of Sub-sidiaries and Goodwill of new business Provision for Profits Tax Distribution Charges arising from payments of dividends by Subsidiary Companies in 1957 and 1958 out of oss on Sale of Trade Investment in Hide & osses less Profits arising on Sale of fixed assets previously revalued

Less:

purchased by a Subsidiary

131,994

866'66

Transfer to Profit and Loss Account of amount written off Investment in former Subsidiary Company previously debited to Capital Reserve

#### ACCOUNTANT

# NOTES ON THE ACCOUNTS

FRANCIS SUMNER (HOLDINGS) LIMITED

(a) Auditors' Romuneration of the Companies consolidated herein totals £7,028 (1960 £8,194). (b) The amount of interest on debentures and other fixed charges of Subsidiaries is £200 (1960 £200) ri

Û

	1960	<b>4</b> 3	16,043	1,505	£17,548
	1962	43	7,015	1,934	£8,949
The Canan Income from Section Income	The Gross arcome it out myestillearts represents:—		Trade Investments	Other Investments	٠

include payments made under guarantees in respect of hire purchase and rental agreements of "Advances to and Payments on behalf of former Subsidiaries written off" amounting to £216,084, these Companies given during the period that they were Subsidiaries. The additional provision of £50,000 represents the Directors' estimate of the maximum further liability which may arise from these guarantees. ų.

"Other Advances provided for or written off" comprise:-4:

	hilst he was a Director, which state is disputing the claim 5,243	former Directors which the	12,875	in dispute 4,575	Total £42,693
Company	(b) Payments to and on behalf of Mr. C. L.Walker, whilst he was a Director, which the Company is taking steps to recover. Mr. Walker is disputing the claim	(c) Certain payments made on the instructions of former Directors which the Company contend were not properly authorised. Actions for recovery have	been commenced, and are being disputed	(d) Sundry amounts due to the Company which are in dispute	

Profits Tax payable and Income Tax Recoverable are calculated after giving relief for Investment and Initial Allowances due. 'n

earlier years by showing "Television Receivers on Rental" as "Fixed Assets" and not "Cuirrent Assets," and "Bills Payable and Advances" as "Current Liabilities" and not "Loans and Deferred The form of the 1962 Consolidated Balance Sheet has been amended as compared with 1960 and Liabilities," as it is considered that this treatment is the more informative, ø

	070	1,950	0000	5,152	4,440	£391,542
ļ	1	•	2	=	7	8
- Particular de la constante d	made up as follows	1,950	200,000	115,152	73,774	£390,876
	The amounts attributable to outside Preference Shareholders are made up as follows:—	Cooper & Company Limited	A. W. Hewetson Limited	Buttons Limited	Brough, Nicholson & Hall Limited	
	œ					

(a) There are contingent liabilities in respect of rents reserved under leases. The Directors are of the opinion that no liability will materialize. θ,

(b) There were contingent liabilities at the 31st March, 1962, in respect of hire purchase and rental agreements discounted, and guarantees amounting to:

The Directors are of the opinion that any loss sustained will not exceed the amount provided in the Profit and Loss Account. 1962 £823,923 £167,209 £247,154 Parent Company (Liabilities of Subsidiaries) " Group

	1960	Z	£29,701
ccounts do not exceed:	1967	Ē	£28,814
xpenditure not inclu		Parent Company	Group
<ol><li>Commitments for capital ex</li></ol>			

Stock (except for a small amount which is not considered material) is valued at the lowest of cost, net realisable values or (in the case of certain Subsidiaries) replacement cost.

No provision is made in the accounts for depreciation of the land and certain of the freehold buildings. ᅼ

"Suspense Account Arising on Consolidation" consists of differences on Inter-Company indebtedness due to differing accounting dates. <u>ლ</u>

#### CITY NOTES

NTERNATIONAL political and economic un-Lecrtainties have given the latest round to the 'bears' in their stock market contest with the 'bulls'. The optimists consider that because there is industrial and economic slack to be taken up, it will be taken up through Government action in the credit and domestic economy sphere and that, therefore, equities are worth selective support at current prices.

The pessimists - or realists as they prefer to call themselves - point to the failure, so far, of easier credit policies to inject new life into industry and to the potential problems posed by the forecast United States business recession. They argue that recent equity improvement has turned on the buoyancy of the gilt-edged market rather than anything else, and that the gilt-edged rise has gone just about as far as it can be expected to go. War in India and the United States manoeuvring against Cuba have introduced adverse political influences to the market in addition to the unsettled economic factors.

Meanwhile the Chancellor seems extremely tentative in his re-expansion policies even though 'Neddy' has shown that re-expansion is vital.

#### RATES AND PRICES

Closing prices, Tuesday, October 23rd, 1962

Tax Reserve Certif	ficates:	(interest ra	te) 25·8·6	52 21%
	Bank	Rate		
Oct. 27, 1960 Dec. 8, 1960 July 26, 1961 Oct. 5, 1961	5½% 5% 7% 6½%	Nov. 2, 196 Mar. 8, 196 Mar. 22, 19 April 26, 1	62 962	6% 5½% 5% 4½%
_	Treasu	ry Bills		
Aug. 24 £3 15s 4 Aug. 31 £3 15s 6 Sept. 7 £3 14s 4	.35d% .50d% .42d% .55d%	Sept. 21 Sept. 28 Oct. 5 Oct. 12 Oct. 19	£3 14s £3 12s £3 12s £3 12s £3 14s	8·42d% 4·13d%
	Money	Rates		
7 days Fine Trade Bills 3 months 4 months 5	1-37% 1-37% 1-6% 1-64%	Bank Bills 2 month 3 month 4 month 6 month	s 3 1 s 3 1	5-4% 5-4% 5-4% 5-4%
Fo	reign E	xchanges		
Montreal Amsterdam 1 Brussels 13	2·80 3 3·01 ½ 0·10 ½ 9·45 ½ 9·40 §	Frankfurt Milan Oslo Paris Zürich		11·212 1739 20·032 13·722 12·09 1
	Gilt-e	edged		
Consols 4% Consols 2½% Convision 5½% 1974 Conversion 5½% 1966 Conversion 3½% 1966 Conversion 3½% Exchequer 5½% 1966 Funding 5½% 82-84 Funding 4% 60-90 Funding 3½% 99-04 Funding 3% 66-68	1001 921 582 1018 994 921	Funding 3 Savings 3% Savings 3% Savings 2% Treas'ry 5 Treasury 5 Treasury 3 Treasury 2 Victory 4% War Loan	60-70 65-75 64-67 64-67 60-89 77-8 60-89	12 95 90 <del>1</del>

A full report of the case summarized in this column will be published, with a Note on the Judgment, in the 'Annotated Tax Cases'.

#### In Re Pilkington's Will Trusts

In the House of Lords - October 8th, 1962 (Before Lord Reid, Viscount Radcliffe, Lord Hodson, Lord Jenkins and Lord Devlin)

Estate duty - Surtax - Advancement - Statutory power - Resettlement of lump sum proposed to be advanced -Advancement to save surtax and estate duty - Rule against perpetuities - Trustee Act, 1925, section 32.

A testator, who died in 1935, constituted by his will a trust fund and settled part of it for the benefit of a nephew, a son of his brother, for life, and after the death of the nephew in trust of such of his children or issue, and in such manner, as the nephew should appoint, and in default of appointment for his children equally. The power of advancement conferred by section 32 of the Trustee Act, 1925, was implied.

In 1959 the testator's brother proposed to make a settlement on Penelope, then 2 years of age, the daughter of his son, the nephew above referred to. If Penelope attained the age of 30 years, she would take the settled fund absolutely; if she should have died under that age leaving a child or children who attained the age of 21 years, the child or children would take the fund absolutely. Subject to this trust the fund should be held in trust for all the children of the nephew, other than Penelope, who being male attained the age of 21 years or being female attained that age or married.

The trustees of the testator's will desired, in exercise of the power given by section 32 of the Trustee Act, 1925, to advance about £7,600 out of the testator's trust fund and pay it to the trustees of the brother's proposed settlement to be held by them on the trusts thereof. The purpose of this advancement was the saving of estate duty and surtax.

It was contended on behalf of the appellants, Penelope and the nephew (her father), that the power of advancement conferred by section 32 of the Trustee Act, 1925, was sufficiently wide to permit of the making of an advancement in the form proposed. It was contended on behalf of the Inland Revenue that the power of advancement conferred by the section was limited to advancements to meet the actual circumstances of the object of the power at the time of the exercise of the power; and that as the proposed new trusts had to be read into the testator's will, they would, on the facts of the case, infringe the rule against perpetuities.

*Held*: there was nothing in section 32 to prevent the kind of advancement in question; but that as the trusts of the proposed settlement would have to be read into the testator's will, they would be void for perpetuity.

## orrespondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

#### **Acceptance Sampling**

SIR, - During the past year or so, a number of practitioners have been experimenting in the application of acceptance sampling techniques to audit work and I would hope that my article on this subject in your issue of October 20th may have interested them and others. However, there is at present no means whereby the many practical problems which are continually arising can be mutually discussed or where individual members can share their experiences.

With this in mind, I have suggested to the London and District Society of Chartered Accountants that a discussion group be formed for the sole purpose of discussing this topic. May I, sir, through the courtesy of your columns, ask any members of the Society who may be interested in this group to write to me

at the address below.

Yours faithfully, K. A. SHERWOOD,

A.C.A.

37 Hampermill Lane, Watford, Herts.

#### **Credit Transfer**

SIR. - I was most interested in your very objective article on 'Credit transfer' in the issue of October

13th.

The universal use of some simple system for the transmission of money would save industry and commerce thousands of pounds and man-hours annually. While there are post offices in every village and every busy street in towns, there are few banks in working-class districts, and banking hours are limited. The use of traders' credits brings additional customers and necessitates additional counter space in banks, but these customers use their post office regularly and can make an additional transaction without needing extra counter space.

· From the accounting point of view the advantages surely are substantial. Receipts are notified by the giro and can be recorded in the cash-book at this stage or the giro advices themselves can serve as a cashbook, as compared with the need for listing cheques on a paying-in slip prior to banking. Payments are debited by the giro on the day they are made and therefore are basically in sequence. Compare that with the need to reconcile the cash-book with the

bank statement on which cheques are entered in a different order. The T.C. system does not advise the recipient who has to search for payments in his bank statement, which he may not receive for a considerable time. The giro provides a daily statement accompanied by portions of the payment forms giving relevant particulars.

On the Continent companies and firms print their giro account number on their stationery just as we print our telephone number. The fact that any member of the public can make payments to any giro account holder at any post office would be a very

real convenience.

Yours faithfully, ALAN JACOBS, Evelvn House. General Secretary, Windlesham Gardens. NATIONAL FEDERATION Shoreham by Sea, OF SUB-POSTMASTERS. Sussex.

[Mr Jacobs over-simplifies when he suggests that additional transactions by existing users of the post office would not need extra counter space; the alternative to extra counter space would be longer queues. The virtues of the giro system are generally admitted; our article questioned, however, whether a giro would be a viable proposition alongside a highly developed banking system which has introduced credit transfers. Mr Jacobs' comparison of giro with cheque transfer is misleading in ignoring the fact that credit transfers provide the same book-keeping advantages as the giro; and the credit transfer system does in fact advise the recipient who makes arrangements with his bank for this to be done. The automatic advice to all users offered by the giro is undoubtedly a better service; but it might be more fruitful to press the banks to provide this automatic advice of credits received than to set up a competing service. In the meantime companies and firms can print the names of their bankers on their stationery almost as easily as they could a giro number; the full benefit of either system depends on its widespread use. Traders' credits are no longer used; they were absorbed by the wider credit transfer service. -Editor.]

#### **Profits Tax**

Sir. - It has occurred to me that the effective rates for profits tax may be stated as follows:

	Per cent
On profits below £2,000	Nil -
On profits between £2,000 and £12,000	18
On profits above £12,000	. 15
The following indicates the proof of t	he 18 pe

21 cent rate:

£9,215 less one-fifth of £2,785=£8,430 at 15 per cent (£1,298 14s). £9,215 less £2,000=£7,215 at 18 per cent

£1,298 14s). I had not previously realized that the withdrawal of the marginal relief produced a straight rate of 18 per cent or 3s 7d in the f.

> Yours faithfully, S. J. BIRKETT.

London Wr.

#### NATIONAL TAXATION CONFERENCE

#### INSTRUCTIVE MEETING AT SCARBOROUGH

The twelfth National Taxation Conference organized y our contemporary *Taxation* was held from Friday f last week until last Monday in Scarborough. There was an attendance of several hundreds and once again the occasion was a notable success.

The Conference was presided over by Mr Percy F. Iughes, Editor of *Taxation*, and the papers on various spects of taxation law and practice proved of great ractical value and interest. Other features of the Conference were a number of enjoyable social functions and an interesting programme for the ladies.

#### CHAIRMAN'S OPENING ADDRESS

pening the conference on Friday afternoon, Mr ercy F. Hughes, said:

On this occasion of the opening of our Twelfth lational *Taxation* Conference, the second which we are held in Scarborough, I am delighted to welcome ou all and to express the hope that you will have a nost enjoyable and helpful week-end.

As I am sure you know, it is my hope that these onferences will continue to provide a forum where nose interested in the subject of taxation can meet from me to time so that problems can be discussed in a riendly atmosphere. It is surely good that we should neet one another from various parts of the country and indeed also from overseas with this object in mind.

#### **Reduction in Income Tax**

ince we met last year much has happened in fiscal ircles. We now have a different Chancellor of the xchequer, although some may feel that the devil ou know is better than the devil you do not know. Iowever this may be, the signs are that there is some nprovement in the economic climate and therefore feel that some easing in the general level of taxation, t least for individuals, is to be anticipated in April ext year. The effect of the earned income reliefs for artax purposes authorized by the Finance Act, 1961, rill be apparent in January 1963 and I feel that it is perefore time for a complete review of the system ow in operation of the progressively increasing rates f tax as the level of income rises. It is important that ne steps by which the effective rate of tax increases or an individual shall not be erratic. It follows from his that attention should be devoted to ensuring that ne area in which no tax is charged and those areas in thich the reduced rates of income operate and then ne standard rate and lastly the progressive rates of urtax shall all be satisfactorily in line.

#### Relations with H.M. Inspectors of Taxes

Ve pride ourselves, and in my view quite rightly, on ne confidence which exists between practitioners and fficers of the Inland Revenue department. Without nis our taxation system would break down. On my isits to other countries I have gained the impression nat people overseas are impressed with this aspect of ur system, although it is not operated in their ountries, and they are inclined to feel that it would not operate abroad as it does here. In the United States of America, for example, they have the impression that accounts in the United Kingdom are accepted by Inspectors of Taxes automatically and seem to find it difficult to appreciate that we prefer to volunteer information about doubtful matters instead of waiting, as in their case, until Inland Revenue investigators unearth them. I am sure that any suggestion that the Revenue in this country should have the right of investigating the books of clients in order to test the accuracy of the accounts and tax returns would be adopted in the United Kingdom only over the dead body of the accountancy profession.

#### Capital Gains

Income tax is an annual tax but it would seem to be like the brook which goes on for ever. No one likes to see the introduction of a new form of taxation and short-term taxes such as excess profits tax, excess profits levy and the special contribution are never popular. There is, however, a tendency these days to widen the conception of income by providing that there shall be treated as income for tax purposes receipts which would not otherwise be income. In 1060 we had legislation which has resulted in a charge to income tax arising on profits derived from the sales of shares in certain property companies. In the Finance Act, 1962, we have the creation of a new Case VII of Schedule D in order to charge to income tax, surtax and profits tax gains from short-term capital transactions. We cannot tell how far this tendency will go or what transactions which give rise to gain will be the next to be brought within the scope of the Income Tax Acts. The trend is clearly there and we would do well to note it. Perhaps I may be allowed to refer to what I



At the conference reception on Friday evening. Mr Graham A. Usher, M.B.E., T.D., C.A., Immediate Past President of the Scottish Institute, is greeted by Mr and Mrs Hughes.



Mr and Mrs Hughes welcoming Mr Edgar Spencer, F.A.C.C.A., President of The Association of Certified and Corporate Accountants, and Mrs Spencer.

said last year in Bournemouth, 'It would seem therefore that in the next Budget we may well find some increase in the artificiality of what is to be considered as income for income tax purposes'. If this leads you to suppose that the old Chancellor of the Exchequer had a word in my ear I hasten to say that the new one has not done so even though I am one of his constituents.

#### Review of Estate Duty

It is high time that the provisions of the Finance Act, 1894, dealing with estate duty and its amendments spread throughout the length and breadth of the numerous Finance Acts which have been introduced since that time, including the Finance Act of 1962, were consolidated into a single Estate Duty Act. Opportunity could then be taken to review that Act with care with the object of seeing whether a different form of tax should be introduced and the old form repealed, or whether such amendments could be introduced to the old legislation which would ensure that anomalies are removed and the burden eased in cases of hardship. In recent times there has been a tendency to ease the burden in the case of the smaller estates which is very good to see, but the burden of estate duty has had very severe repercussions in the case of family businesses which should be avoided as far as possible. I may say that I have no hope that the new Chancellor will repeal estate duty which yields about £185 million each year.

#### Single Tax for Companies

Technical matters are dealt with at some length at our normal business sessions and it has not been my practice to refer to them at the opening of our conferences except in general terms. There is, however, one further matter to which I would refer. Although I do not envisage any substantial reduction in the level of taxation imposed on companies, I would like to see the Chancellor of the Exchequer give active consideration

to the introduction of a single corporation tax and thus avoid the complexities which arise as a result of having to cope with income tax and profits tax on the profits of companies. It would not be so bad if the profits were computed on the same principles, but the need to make two separate computations of profit and then to have two separate periods of assessment is wasteful in time and labour. The introduction of a single tax, assessed if necessary for a fiscal year but on an actual basis would no doubt bring its own problems, particularly if the rate of tax differed from the standard rate of income tax, but I am of the opinion that the advantages would be considerable and far outweigh the difficulties such as determining the rate of tax to be deducted on payment of dividends.

#### Tax Problems of Family Companies Seeking Public Finance

Mr E. H. Gordon, B.A., was the speaker at the first business session; with Mr G. L. Barker, F.A.C.C.A., in the chair. Mr Gordon referred to the tax problems that need to be solved when a private company is seeking finance by a public issue. The 1940 Act gave the Revenue power to collect estate duty from a company where the deceased had transferred assets or had a controlling interest. This liability was not lost merely because the company had become publicly quoted, whether the public had a substantial interest or not. surtax was also a tax recoverable from the company and a clearance should be obtained. The seeking of additional finance from the public provided evidence of continuing expansion which would have justified the company in declaring smaller dividends. The Special Commissioners are no longer prepared to discuss



Mr E. H. Gordon, B.A., addressing one of the technical sessions. Mr G. L. Barker, F.A.C.C.A., immediate Past President of The Association of Certified and Corporate Accountants (left), was Chairman.

#### THE ACCOUNTANT

whether a particular dividend is 'reasonable' before it is declared. The company has to decide this for itself. Subsequently it may be necessary to discuss the matter personally with the representatives of the Special Commissioners so that the matter is disposed of before

any public offer is made.

Mr Gordon then reviewed, with special reference to property companies, recent Finance Acts which impose ipon a company income tax liabilities that properly belonged to its present or former shareholders. Next ne considered how a publicly quoted company could satisfy section 256 and escape the risk of paying the surtax of some of its members. The Stock Exchange ecognize that what will amount to 25 per cent of the ordinary voting shares in a company is a quite common ssue. On the other hand there are circumstances in which such an offer will still fail to satisfy the section. t often happens that two family companies amalganate in some way before the public issue is made and a orm of share exchange is the procedure to be aimed it. Both stamp duty and the new short-term gains tax an be avoided and use made of section 17 of the Finance Act, 1954. Mr Gordon examined the case of C.I.R. v. C.H.W. (Huddersfield) Ltd (40 A.T.C. 371) nd noted that subsidiary companies do not enjoy the protection from surtax accorded to a publicly quoted company by reference to its position at the last day of in accounting period. In practice a concession applies o acquisitions more than three months before that late. Before a public issue, contentious matters should be cleared with the Revenue or dealt with by an dequate reserve or the obtaining of indemnities from he appropriate shareholders.

#### **Brains Trust**

The first session on Saturday morning took the form of a Brains Trust at which there were questions on juotations from the Income Tax Acts and decided cases n the Courts. The chairman was Mr James S. Heaton, C.A., and the members of the panel were Mr J. Christie, A.C.A., Mr Maurice F. Coop, B.A., Mr J. M. Cooper, A.A.C.C.A., A.C.I.S., and Mr L. Varty, H.M. nspector of Taxes.



it Saturday morning's 'Brains Trust' session: (Left to right) Ar J. Christie, A.C.A.; Mr L. Varty, Inspector of Taxes; Ir James S. Heaton, F.C.A., (Chairman); Mr Maurice F. Coop, B.A., secretary, Dunlop Rubber Co; Mr J. M. Cooper, A.A.C.C.A., A.C.I.S.; Mr T. L. A. Graham, F.C.A. (Clerk to the Panel).

#### **Drafting the Finance Bill**

Mr Graham A. Usher, M.B.E., T.D., C.A., immediate Past President of the Institute of Chartered Accountants of Scotland, took the chair at the first session on Saturday afternoon which was addressed by Mr Peter H. Sée, C.B., Parliamentary Counsel. In his talk Mr Sée referred to some of the difficulties of Parliamentary draftsmen in framing legislation, with particular reference to the Finance Bill.

Mr Sée said that the draftsman's greatest enemy was time. As the law stood, the Finance Bill must be law not later than August 5th. This meant, bearing in mind the proceedings in the House of Lords, that the Bill had to leave the House of Commons, where the main work was done, by the beginning of July. The Chancellor of the Exchequer could not be expected to make up his mind what he was going to do in the Budget much before the end of the financial year, so there were three months, April, May and June, in which the Finance Bill had to be finally settled and passed. It was in fact, really much less than three months, because the main bulk of the drafting had to be done before the Bill was introduced.

Comprehensibility was the most important of the aspects of drafting, and one of the difficulties about making the Finance Bill comprehensible was the artificiality of the subject-matter. Beyond this, also, there was, so to speak, the conflict between the English language on the one hand and the way the Courts construe the law, on the other.

Mr Sée referred to the difficulties which would be involved in meeting the requests made for explanatory memoranda to Finance Bills, and in finding alternatives to 'legislation by reference'. He concluded his address as follows:

'I believe that one of the greatest improvements would be if the outside world, so to speak, came in with its criticisms hard, firm and early. You see, the draftsman is the last person in the world to judge how easy or difficult his stuff is to understand. He knows, I hope, what it is he is trying to do. Because of his job he is a little more used to reading the long and difficult sentences than a lot of other people. What is more, by the time you have written variations on the same thing ten or twelve times, the purely communication

difficulties tend to have disappeared.

'I believe a lot can be done if those who are going to be concerned with the administration of Finance Bills, when they become law, communicate firmly and early with those concerned, saying "Look, this bit really is too difficult". It may take the form of a question from a Member of Parliament on the floor of the House. It may take the form of an outside body writing in to the Chancellor of the Exchequer. It may take the form of the private individual writing to the Chancellor or the Board of Inland Revenue. It may well be that an actual amendment would not solve the problem, and I am sure that if people concerned with the administering of Finance Bills when they become law, would look at Finance Bills early enough, and would simply say "Look, we find this one particularly difficult for the following reasons", much could be done to help it.'

'We are, believe it or not, on the same side of the fence on this occasion. It is not true that on the one side you have, so to speak, the official army; on the other side, you have the taxpayers' army and all they want to do is fight one another to reach an agreement.

So far as the form of the law is concerned it must be in the interests of both of us that we should understand one another just as fully and as easily as we can, and I believe it to be the duty of both sides, I mean both sides, to do whatever we can to produce this result. I want all the help from you that I can.

'I can only add just this by way of postscript. I am, of course, talking about the form of the law; I have no concern with, or responsibility for, the substance of the law. If you think you are being overtaxed or for

that matter undertaxed, don't blame me.'

#### Taxation and Industry

The second address on Saturday afternoon was given by Mr A. Dale, F.A.C.C.A., under the title 'Taxation and industry - with particular reference to tax problems concerned with United Kingdom entry into the European Common Market'. The chairman was Mr

A. E. Dawson, F.C.A.

The fiscal provisions of the Treaty of Rome important to Britain in the event of membership were outlined by Mr Dale. Article 92 prohibited State subsidies other than grants in cases of natural disaster or expenditure in special areas of unemployment. Articles 95 to 98 contained general principles to prevent distortion of competition in the export trade and the rules were similar to those previously adopted by G.A.T.T. and O.E.E.C. Of fundamental importance in relation to indirect taxes was Article 99 which read:

'The Commission shall consider how to further the interests of the Common Market by harmonizing the legislation of the various member States concerning turnover taxes, excise duties and other forms of indirect taxation, including compensatory measures in respect of trade between member States.

'The Commission shall submit proposals to the Council; the latter shall decide upon the matter unanimously . . .

The position of direct taxes was covered by Articles 100 and 101 which gave the Council the very broad powers, first, to 'issue directions for the approximation of such legislative and administrative provisions of



Mr A. Dale, F.A.C.C.A., addressing a technical session on Saturday afternoon. Mr A. E. Dawson, F.C.A., immediate Past President of the Irish Institute (left), was in the chair.

member States as directly affect the establishment or operation of the Common Market' and secondly, to 'consult member States and, if corrective action does not follow, to issue directions, if it finds that a discrepancy between the legislative or administrative provisions of member States is interfering with competition within the Common Market and consequently producing distortions which need to be eliminated'. Considerable progress had already been made towards harmonization. Difficulties remained through the varying emphasis on direct and indirect taxes and

distinctive patterns of expenditure.

In France the turnover tax takes the form of an 'added-value' tax charged on the additional value at each change of ownership, i.e., it is multi-stage but non-cumulative. It compares with the United Kingdom purchase tax which, however, has the advantage of being collected at one point. Other Common Market countries have cumulative multi-stage turnover taxes known as 'cascade' taxes under which the whole value is taxed at each transfer during the course of production. Mr Dale listed many of the problems of direct taxation that required to be resolved. The time was ripe for harmonization of the differences in treatment by various countries of income derived from foreign sources. In the long-term the solution probably lay in the acceptance internationally of the rule that the country of origin of the income has the sole right to tax it. The proportion of the cost of social security met by direct charges represented 30 per cent in some countries as compared with 12½ per cent in the United Kingdom but it was problematical if entry into the Market would increase the total cost of social welfare. Changes to be expected would include a switch from direct to indirect taxes and the Board of Inland Revenue might have to modify its attitude to stock valuation and the revaluation of assets in times of inflation.

#### History and Work of the Committee of Ways and Means

On Monday morning, Mr Geoffrey Stevens, M.P., F.C.A., gave the first address on 'The History and work of the Committee of Ways and Means of the House of Commons with particular reference to the Finance Bill 1962'. Mr Ernest Long, F.C.I.S., was in the chair.

Mr Stevens traced the history of the Ways and Means Committee and explained that a Committee resolution is a necessary preliminary to the imposition of a new tax, the continuation of an expired tax and an increase in the rate of an existing tax or an extension of the incidence of tax so as to include persons not already payers. The authorization of expenditure was the special function of the Committee of Supply but there were certain charges such as the service of the National Debt which are permanent charges on the Consolidated

After discussing Government expenditure, Mr Stevens enumerated the stages passed through by a Finance Act. These included: First Reading, which meant the publication of the Bill; Second Reading, when the principle of the Bill is debated in the Commons; Committee stage in the Commons; Second Reading in the House of Lords; Report Stage in the Commons; Third Reading of the Bill as amended; Royal Assent.

Mr Stevens reviewed Parliamentary practice in rela-

#### THE ACCOUNTANT



Ar Geoffrey P. Stevens, M.P., F.C.A., addressing the conference last Monday

ion to the Judget. He referred to the secrecy with which changes in taxation are guarded by a select band f Treasury officials, from shorthand-typists to first ecretaries and also the printers who must know eforehand some details of the Chancellor's taxation roposals. Many amendments to the Finance Bill abled by M.P.s originated from such sources as the axation department of a great company, a leading tax counsel or the taxation committee of a large association. Ar Stevens thought that it seemed a pity that there vere so few M.P.s with any practical taxation xperience.

Mr Stevens continued with a reference to the xplanatory note issued in connection with the taxation f short-term gains and expressed the hope that this rould form a precedent for future Bills. However, he mphasized that a ministerial statement had no force it was not in accordance with the Act which it purorted to interpret.

#### Tax on Short-term Capital Gains

'he final address was given by Mr Percy F. Hughes n the subject of 'Tax on short-term capital gains', ith Mr F. M. W. Hird, F.C.A., F.C.W.A., in the chair. 'he general climate of opinion had tended to move wards a capital gains tax, said Mr Hughes, but the ew Case VII of Schedule D was more an extension of ne scope of income tax. Case VII gains might have an fect on the calculation of small income relief, age elief and life assurance relief as well as affording over for charges and section 341 claims, but Case VII sses could only be utilized by carry-forward against ture Case VII gains. Surtax also was affected. There as some doubt as to whether a wife's Case VII losses ould be set off against her husband's gains. For profits x purposes short-term gains only entered into the imputations to the extent of any net gains.

Mr Hughes considered the position of short-term sses of companies within a group which could be tilized against the net short-term gains of other couped companies. Losses not utilized in any charge-

able accounting period would, it seemed, be available for carry-forward only against short-term gains subsequently accruing to the same company. Assets chargeable extended to all forms of property whether situated in the United Kingdom or elsewhere but there were exclusions for certain kinds of tangible moveable property, a dwelling-house occupied by an individual, being his sole or main residence, patent rights and assets used for business purposes. Mr Hughes drew attention to the advantage to an individual taxpayer if the liability is dealt with under Case I rather than under Case VII. Liability would not arise in respect of a letting for less than twenty-one years unless effected in conjunction with a sale. All expenses wholly and exclusively incurred in obtaining the Case VII gain would be allowable but disposal of a chargeable asset would involve tracing back its acquisition. There was a general rule that a reorganization or reduction of a company's share capital would not involve any acquisition or disposal for Case VII purposes while bonus shares were treated as part of the original

Mr Hughes explained the operation of section 14 of the Finance Act, 1962, which deals with a possible loophole where shares in a land-owning company are sold after an interval of six months in circumstances where a disposal of land by the company would have been caught as having been effected within three years. He went on to observe that only in rare cases would the assessment under Case VII be made and the tax charged by January 1st, in the fiscal year to which it related. No special forms of return are required but the taxpayer would be under an obligation to include Case VII gains in his normal income tax return and the appropriate penalties would be applicable for failure to do so. An agent could only be required to give factual information concerning acquisitions and disposals in respect of which he had acted for a particular person specified in the notice served on him by the

Revenue.

#### Reception and Cocktail Party

A reception and cocktail party was given by the Editor of Taxation in the ballroom of the Grand Hotel on Friday evening to which all members and their ladies were invited.

#### Civic Reception and Dance

The Mayor and Mayoress of Scarborough, Councillor W. H. Smith and Mrs Smith, gave a civic reception and dance on Saturday evening in The Spa Ballroom.

#### Church Service

A morning service for conference members and their ladies, conducted by the Rural Dean and Vicar of Scarborough, the Reverend Canon D. Oxby Parker, M.A., was held at St Mary's Parish Church on Sunday morning.

#### **Golf Competition**

Mr Cyril E. Taylor, of Derby, was the winner of the eighteen-hole Stableford golf competition which was held on Sunday at Scarborough South Cliff Golf Club. The Taxation Golf Challenge Cup was presented to Mr Taylor by Mr Percy F. Hughes.

## Notes and Notices

#### PROFESSIONAL NOTICES

Messrs Booth, Ainsworth & Co, Chartered Accountants, of Midland Bank Chambers, Cheadle, Cheshire, announce that as from October 1st, 1962, they have taken into partnership Mr Stanley Lawrence Howard, A.C.A., who has been with the firm for a number of years. The firm name remains unchanged.

Messrs Kemsley & Co, Chartered Accountants, have moved to new offices at 9 Southampton Place, Holborn, London WC1. Telephone: Holborn 4434.

#### **Appointments**

Mr J. A. Graham, F.C.A., has been appointed to the boards of Bromilow & Edwards Ltd and Edwards Bros (Tippers) Ltd.

Mr G. E. A. Beardall, F.C.A., A.C.W.A., has been appointed secretary and chief accountant of Ruston & Hornsby Ltd.

Mr Alexander G. Scott, F.C.A., formerly chief accountant and controller of the Solartron Electronic Group Ltd, has been appointed controller and secretary of Schlumberger Overseas S.A., London.

#### FIRM'S GOLDEN JUBILEE

The partners and about seventy members of the staff of Messrs Slater, Dominy & Swann, Chartered Accountants, of Cambridge, met for dinner at the University Arms Hotel, Cambridge, on October 12th, to mark the fiftieth anniversary of the founding of the practice by the late Mr Harry Slater, father of the present senior partner.

#### OFFICIAL RECEIVER APPOINTMENTS

The Board of Trade have announced the following appointments:

Mr Arthur Thomas Cheek as Senior Official Receiver for the purposes of the Companies Act, 1948, and attached to the High Court.

Mr Christopher Albert Taylor as Official Receiver for the purposes of the Companies Act, 1948, and attached to the High Court. Mr Philip Anthony Lawrence as Official Receiver for the Bankruptcy District of the County Court of Canterbury and the Bankruptcy District of the County Courts of Rochester and Maidstone.

Mr Robert Livingstone Lochhead as an Assistant Official Receiver in Bankruptcy attached to the High Court.

Mr Ralph Arthur Donovan Copper as Official Receiver for the Bankruptcy District of the County Courts of Northampton, Bedford and Luton and the Bankruptcy District of the County Courts of Cambridge and Peterborough.

Mr Thomas Arthur Tuck as Official Receiver for the Bankruptcy District of the County Courts of Norwich, Great Yarmouth and King's Lynn and the Bankruptcy District of the County Courts of Ipswich, Bury St Edmunds and Colchester.

## THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

#### Summer Courses 1962

The programme and full texts of the addresses given at the Institute's Oxford and Cambridge courses this year have been reprinted in booklet form, one for each course, and are obtainable from the Institute, price 5s a copy, post free. The addresses presented at the two courses were as follows:

Oxford: "The problems of the smaller practice', by Mr R. W. Smith, O.B.E., T.D., F.C.A.; 'Investment in stocks and shares', by Mr A. G. Touche, F.C.A.; and 'The training of accountants for industrial responsibilities', by Mr G. W. Searle, D.SC., F.C.A.

Cambridge: 'Insurance and the accountant', by Mr David Williamson, F.C.A.; 'Taxation aspects of amalgamations and reconstructions', by Mr D. O. Bailey, F.C.A.; and 'Service to management', by Mr R. D. S. Shrimpton, F.C.A.

#### Members' Library

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Aspetti della Vita Economica Medievale: (studi nell'archivio Datini di Prato); by F. Melis. Siena. 1962. (Monte dei Paschi di Siena.)

Carter's Advanced Accounts: a manual of book-keeping and accountancy for students; by R. N. Carter, F.C.A.: fifth edition. 1962. (Pitman, 178 6d.)

Company Law Simplified; by R. G. Creecy. 1962. (Gordon, Arlen. Presented by the author, 1986d.)

Company Secretarial Practice Simplified; by R. G. Creecy. 1962. (Gordon, Arlen. Presented by the author, 22s 6d.)

Cost Accounting: a managerial emphasis; by C. T. Horngren. Englewood Cliffs, N. J. 1962. (Prentice-Hall, presented by *Accountancy*.)

Cost and Budget Analysis; by John Dearden. Englewood

Cliffs, N.J. 1962. (Prentice-Hall, 36s.)
The Economics of Everyday Life; by Gertrude Williams. (1950.) (Penguin Books, 3s 6d.)

Group Accounts Simplified; by R. G. Creecy. 1962. (Gordon, Arlen. Presented by the author, 17s 6d.)

A Guide to Operational Research; by W. E. Duckworth. 1962. (Methuen, 20s.)

A Guide to Stock Control; by A. Battersby. 1962. (Pitman, 18s.)

The Housing Act, 1961: with general introduction and annotations . . .; by G. Wilson. 1962. (Butterworth.) [No price available.]

Income Distribution and Social Change; by R. M. Titmuss.

1962. (George Allen & Unwin, 25s.)
In-Laws & Outlaws; by C. N. Parkinson. 1962. (John Murray, 18s.)

Management Accounting Simplified; by R. G. Creecy. 1962. (Gordon, Arlen. Presented by the author, 178 6d.)
Management by Results; the dynamics of profitable management; by E. C. Schleh. New York. 1961. (McGraw-Hill, 468 6d.)

Marketing for Profit: a study in the formulation of commercial policy within the business organization; by L. Hardy. 1962. (Longmans, 18s.)

An Outline of Estate Duty in Scotland; by G. H. Brown, J. K. W. Dunn and J. M. Halliday. Edinburgh. 1962. (W. Green, 25s.)

Piecework Abandoned: the effect of wage incentive systems on managerial authority; by W. Brown. 1962. (Heinemann, 218)

The Practice and Law of Banking; by H. P. Sheldon: ninth edition; by H. P. Sheldon and C. B. Drover. 1962. (Macdonald & Evans, 37s 6d.)

Punched Cards: data processing for profit improvement; by D. A. C. McGill. New York. 1962. (McGraw-Hill, 58s.)

The Quantum of Damages; by D. A. M. Kemp, Margaret S. Kemp and C. J. C. McOustra: Volume 2: fatal injury claims: second edition. 1962. (Sweet & Maxwell, 475 6d.)

Royal Commission on the Press 1961-1962: report. Cmnd. 1811, 1962. (H.M.S.O., 13s.)

Spicer and Pegler's Practical Auditing; by E. E. Spicer, F.C.A., and E. C. Pegler, F.C.A.: thirteenth edition by W. W. Bigg, F.C.A.: Indian edition by S. V. Ghatala, F.C.A. Bombay. 1962.

The Theory of Capital: proceedings of a conference held by the International Economic Association; edited by F. A. Lutz and D. C. Hague. 1961. (Macmillan, 50s.)

Theory of Money; by W. T. Newlyn. Oxford. 1962. (Clarendon Press, 18s.)

Three-year Digest of Income Tax Cases classified 1959-1961 in continuation of Butterworths Income Tax Digest.

(Butterworth & Co: edited by P. F. Skottowe.) 1962.

(Butterworths, 15s.)
Towards a General Theory of Accounting; by R. J. Chambers. Sydney. 1961. (Australian Society of Accountants, presented.)

#### BEDS, BUCKS AND HERTS BRANCH Annual Dinner

The annual dinner of the Beds, Bucks and Herts Branch of the London and District Society of Chartered Accountants was held at Watford, on October 16th, and was presided over by the Branch Chairman, Mr

P. J. L. Case, F.C.A.

In his response to the toast of "The Institute of Chartered Accountants in England and Wales', proposed by Mr E. T. Warren, Secretary of the Tottenham and Watford Division of the Eastern Gas Board, the President of the Institute, Mr Percy F. Carpenter, F.C.A., assured members that it was his intention to see that some of the matters which the Institute had in hand were brought to fruition during his year of office. Mentioning that the Parker report was about to be implemented he said: 'We feel we must be entirely practical and try and link our educational

#### **OBITUARY**

### Sir Harold Barton, F.C.A.

It is with very deep regret that we record the death on October 20th, in his eighty-first year, of Sir Harold Montague Barton, F.C.A., a Past-President of The



Institute of Chartered Accountants in England and Wales and co-founder of the firm of Barton, Mayhew & Co in 1908.

Sir Harold was born in Hull on September 24th, 1882, and was educated at Oundle. He was admitted an Associate of the Institute in 1904 and was elected to Fellowship in 1914. In 1928 he was elected

to the Council of the Institute and served as Vice-President from 1942-44 and as President from 1944-45. He was appointed first chairman of the Taxation and Financial Relations Committee (the predecessor of the Taxation and Research Committee) in 1942 until his election as Vice-President of the Institute. He served on most of the committees of the Institute and was chairman of many of them. Following the Second World War, Sir Harold interested himself wholeheartedly in the affairs of the Institute and will be particularly remembered for his work in connection with the Planning Committee (of which he was chairman), refresher courses for members returning from the Services, and all other matters concerning younger

members. For many years he was on the Co-ordinating Committee and when that scheme failed, played an active part in the deliberations leading up to integration with the former Society of Incorporated Accountants. He retired from the Council of the Institute in July 1957, three years after his retirement from practice.

Outside his Institute activities, Sir Harold served as financial director of the National Dock Labour Corporation, becoming vice-chairman in 1947, when it was succeeded by the National Dock Labour Board; he received his knighthood in that year. He remained vice-chairman until 1949. From 1939-42 he was a member of the London Region Price of Goods Committee; the Higher Appointments Committee of the Ministry of Labour and National Service from 1943-44; an Authorized Controller of General Aircraft Ltd on the appointment of the Ministry of Aircraft Production from 1943-45; chairman of the Unlicensed Residential Establishments Wages Board from 1946-50, and a member of the tribunal to determine compensation under the Cable and Wireless Act, 1946. Among other appointments, he was chairman from 1950-58 of the British Film Production Fund which had been set up to administer the fund supplied by the levy on British Cinema exhibitors under the Eady Plan. He was also a member of the Panel of Judges for The Accountant Annual Awards for three years from the inception of

the Awards in 1954.

Sir Harold will be remembered as a most distinguished accountant and as a leader of the profession in which he was held in such high regard. His qualities of sympathy and understanding endeared him to all those who knew him or served with him. We extend our sincere sympathy to Lady Barton and to his son and daughter in their sad loss.

requirements with the educational system of the country.

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Referring to the Eighth International Congress of Accountants held in New York last month, Mr Carpenter said that throughout the world the title 'chartered accountant' was held with very great respect. 'I always feel', he added, 'that the greatest help the Council of the Institute can give its members is to uphold and enhance the general reputation of the chartered accountant.'

#### LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The first of three meetings on the Common Market arranged by the Committee of the London District Society of Chartered Accountants will be held next Tuesday at 5.30 p.m. at The Chartered Insurance Institute, 20 Aldermanbury (near Guildhall). Sir Graham Cunningham, K.B.E., LL.B., will speak on "The European Common Market and the Treaty of Rome', and a period of discussion and questions will follow.

#### CHARTERED ACCOUNTANTS' GOLFING SOCIETY

#### A. O. Miles Challenge Cup

In the final match for the A. O. Miles Challenge Cup, played at Luffham Heath Golf Club, Messrs Futcher, Head, Smith & Co (A. W. Coleman and E. H. Head), beat Messrs Stanley Blythen & Co (R. W. Cox and C. W. Bingham).

#### INTERNATIONAL FISCAL ASSOCIATION United Kingdom Branch

The first meeting of the 1962-63 session of the United Kingdom Branch of the International Fiscal Association was held in London on October 2nd, when members heard a full report on the proceedings of the Association's sixteenth congress held in Athens from September 10th-14th (a report of the congress appeared in The Accountant of September 22nd). This was followed by two papers dealing with the 1963 congress to be held in Paris entitled "The comparative tax treatment of process of merger and capital reconstruction of enterprises', by Mr H. J. Hinves, F.C.I.S., and 'Fiscal measures in capital exporting countries for the purpose of encouraging investment in countries in the process of development', by Mr A. Dale, F.A.C.C.A.

Further meetings of the Branch have been arranged

as follows:

November 7th, 'The German tax audit', by Dr Arndt

Heinicke.

November 22nd and 23rd, Tax Seminar. It is proposed to organize a tax seminar on British taxation and the Common Market sponsored jointly by the United Kingdom Branch of the Association and the Federal Trust. (Further details will be announced later).

November 27th, Wine tasting session. Dr O. W. Loeb will

give a short talk on German wines.

The honorary secretary of the Branch is Mr D. I. Main, F.C.A., 9 Basinghall Street, London EC2.

#### THE LEICESTERSHIRE AND NORTHAMPTONSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

The following functions arranged by The Leicestershire and Northamptonshire Society of Chartered Accountants, will take place at the Grand Hotel, Leicester:

November 15th. Luncheon meeting: 'Yardsticks and examples', by Mr L. V. Tindale, c.a., joint general manager, Industrial & Commercial Finance Corporation Ltd.

January 24th, 1963. Luncheon meeting: "The property developer and provincial towns and cities', by Mr C. L. Bounsall, B.SC., A.R.I.C.S., A.A.I.

March 27th. Evening meeting, 6 p.m. for 6.30 p.m. "The legal aspects of the capital gains tax", by Mr David Shirley, Barrister-at-law.

The honorary secretary of the Society is Mr J. H. Golcher, F.C.A., 32 De Montfort Street, Leicester.

#### SCOTTISH CHARTERED ACCOUNTANTS IN LONDON

#### **Discussion Group Meetings**

'A criticism of certain accounting conventions', by Mr R. M. Morison, M.A., C.A., based on part of his address to the Scottish Institute's Summer School held at St Andrews last September, will be the subject at a discussion group meeting for London members of The Institute of Chartered Accountants of Scotland to be held on December 10th, in the Oak Hall of the English Institute, Moorgate Place, London EC2, commencing at 6 p.m. A further meeting will be held, also in the Oak Hall of the English Institute and commencing at 6 p.m. on January 14th, when the subject for discussion will be 'Export finance', by Sir Laurence Menzies, adviser to the Governors of The Bank of England.

#### THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of The Chartered Accountant Students' Society of London will be held next week:

Monday, 5.30 p.m., at the Institute, Moorgate Place, EC2:
Lecture on The facts, the law and the General Commissioners', by Mr Douglas A. Clarke, LL.B., F.C.A.
(A General Commissioner for the City, member of the Council of the Institute and Vice-President of the Students' Society.)

Wednesday: Demonstration of Lamson-Paragon accounting methods (limited number).

6 p.m., at the Institute: Joint debate on 'This house

welcomes the revival of the Liberal Party'.

At Reading: Whole-day course, by Mr V. S.

Hockley, B.COM., C.A., F.A.C.C.A.

Thursday, 5.15 p.m., at the Institute: Introductory course lecture on 'Details of final accounts', by Mr F. R. Porter, F.C.A., A.C.W.A.

Friday, 5.15 p.m., at the Institute: Introductory course lectures on 'The taxation system', by Mr F. R. Porter, F.C.A., A.C.W.A., and 'The ownership and control of a business', by Mr P. W. Medd (Barrister-at-law).

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## THE INSTITUTE OF OFFICE MANAGEMENT One-day Conference in Glasgow

The twelfth annual one-day conference and exhibition, organized by the Glasgow and West of Scotland Branch of the Institute of Office Management, will be held in St Andrew's Halls, Glasgow, on Wednesday, November 7th. Mr L. Hodson, of Norcros Consultants Ltd, will give a paper on 'Controlling stocks and stores'. A number of main manufacturers and suppliers of office equipment will participate in a comprehensive exhibition.

Further particulars may be obtained from the

conference secretary, Mr C. Maclean, Weir Housing Corporation Ltd, Calder Street, Coatbridge.

#### ECONOMIC CONDITIONS OVERSEAS

Two booklets in the 1962 series dealing with economic conditions in member and associated countries of the Organization for Economic Co-operation and Development has recently been issued covering France, and the Belgium-Luxemburg Economic Union.

Copies of the booklets are obtainable from H.M.

Stationery Office, price 3s.

#### THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

#### Results of Examinations held in August 1962

#### PART V

Of the 18x candidates who sat Part V of the Institute's examination on August 28th, 29th, 30th and 31st, 1962, the undernoted eighty-two (45'3 per cent) candidates passed. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

Allan, M. H. (Martin Currie & Scott), Edinburgh
Allison, R. C. G. (Alexander Sloan & Co), Glasgow
Beaumont, R. M. (McClelland, Moores & Co), London
Bennie, A. (Brown, Fleming & Murray), Glasgow
Brown, S. J. (McClelland, Moores & Co), Glasgow
Burnets, R. G. (John M. Geoghegan & Co), Edinburgh
Calder, H. R. M. (Robertson & Maxtone Graham), Edinburgh
Calder, H. R. M. (Robertson & Maxtone Graham), Edinburgh
Calderwood, R. B. (Euan Macdiarmid & Co), Edinburgh
Chamberlain, J. M. (Hamilton-Eddy & Walker), London
Chisholm, F. R. (Wilson, Stirling & Co), Glasgow
Cole, M. J. (Peat, Marwick, Mitchell & Co), Birmingham
Craig, H. C. (Martin Currie & Scott), Edinburgh
Crawford, W. A. (Fleming & Black), Glasgow
Davidson, S. W. E. (Wylie & Hutton), Edinburgh
Dodds, C. D. P. (Wm. Home Cook & Co), Edinburgh
Ferguson, W. S. (Wilson, Ferguson & Co), Glasgow
Findlay, C. M. (Fleming & Black), Glasgow
Fraser, J. D. (Turner, Hutton & Patrick), Glasgow
Fraser, J. J. (McClelland, Moores & Co), Glasgow
Gavigan, M. (Wilson, Ferguson & Co), Glasgow
Gillespie, D. D. (Thomson, Jackson, Gourlay & Taylor), Glasgow
Gillespie, S. S. (W. A. Findlay), Dundee
Gracie, P. K. (Robertson & Maxtone Graham), Edinburgh
Grahamslaw, G. I. (Charles Burrows & Co), Edinburgh
Grahamslaw, G. I. (Charles Burrows & Co), Glasgow
Harris, R. McG. (S. Easton Simmers & Co), Glasgow
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Harris, R. McG. (S. Calender McOmish, Hart & Co), Glasgow
Harris, R. McG. (S. (Rerr, MacLeod & Macfa

Lang, G. W. (J. Stirling Brown & Co), Glasgow
Lauder, G. A. (McClelland, Moores & Co), Glasgow
Loudon, R. A. G. (Wilson, Stirling & Co), Glasgow
McCulloch, J. D. (Chiene & Tait), Edinburgh
McDonald, J. K. (John H. Fraser & Crawford), Greenock
MacFadden, (Miss) M. M. (Wallace & Somerville), Edinburgh
McGregor, J. S. M. (Thomson McLintock & Co), Glasgow
McKay, J. (J. M. Kerr & Lindsay), Greenock
Mackenzie, A. M. (Scott & Paterson), Edinburgh
Mackenzie, (Miss). H. M. (Moody Stuart & Robertson), Dundee
Mackenzie, (Miss). H. M. (Moody Stuart & Robertson), Dundee
Mackenzie, R. W. MacA. (Thomson McLintock & Co), Glasgow
McKinlay, J. (Hourston, Macfarlane & Co), Glasgow
McLean, A. (Grahams, Rintoul & Co), Glasgow
McLean, A. (Grahams, Rintoul & Co), Glasgow
MacLeod, A. H. (McLay, McAlister & McGibbon), Glasgow
McLeod, J. (J. W. Stewart & Co), Glasgow
McLeod, J. (J. W. Stewart & Co), Glasgow
McNeil, D. C. (Howden & Molleson), Edinburgh
Menzies, (Miss) M. A. (Hourston, Macfarlane & Co), Glasgow
Millar, R. P. W. (Brown, Fleming & Murray), Glasgow
Millar, D. R. (E. W. Ellis & Co), London
Newlands, R. (Festus Moffat & Co), Falkirk
Penrose, G. W. (Kirk & Johnston), Glasgow
Reid, M. D. (Gourlay & Deas), Glasgow
Roques, D. J. S. (Touche, Ross, Bailey & Smart), London
Samuel, L. A. (French & Cowan), Glasgow
Scouller, B. J. M. (Paterson & Steel), Glasgow
Sheridan, R. W. (Robert G. Morton & Son), Edinburgh
Simpson, D. W. M. (John M. Geoghegan & Co), Edinburgh
Simpson, D. W. M. (John M. Geoghegan & Co), Edinburgh
Simpson, D. W. M. (John E. Watson & Co), Glasgow
Smith, I. C. (Russ, Ferguson & MacLennan), Stornoway
Sowersby, J. (Howden & Molleson), Edinburgh
Spalding, E. J. (Miller, McIntyre & Gellatly), Dundee
Taylor, G. G. (W. A. Findlay & Co), Dundee
Walker, A. G. O. (McClelland, Moores & Co), Edinburgh
Walton, A. (Craston Thomson & Allison), Glasgow
Watters, P. (J. W. Stewart & Co), Glasgow
Watters, P. (J. W. Stewart & Co), Glasgow
Wood, R. M. (Robertson, Davies & Co), Glasgow
Zahid, M. A. H. (Davidson & Workman), Glasgow

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#### PART IV

Of the 287 candidates who sat Part IV of the Institute's examination on August 28th, 20th and 30th. order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

Adamson, R. W. (Taylor & Ireland), Glasgow
Aderinto, (Miss) E. M. (Martin, Aitken & Anderson), Glasgow
Anderson, D. H. (McClelland, Moores & Co), Glasgow
Arnott, R. P. (Reid & Mair), Glasgow
Austin, R. E. (Mann, Judd, Gordon & Co), Glasgow
Belch, R. A. (Kerr, MacLeod & Macfarlan), Glasgow
Bell, R. J. J. (A. T. Niven & Co), Edinburgh
Bisset, R. MacB. (Adam Ker & Sangster), Glasgow
Bilue, C. J. (McClelland, Moores & Co), Glasgow
Bradley, J. P. (Peat, Marwick, Mitchell & Co), Leeds
Braidwood, J. C. (Mackay, Irons & Co), Dundee
Campbell, A. W. (S. Easton Simmers & Co), Glasgow
Campbell, A. W. (S. Easton Simmers & Co), Glasgow
Coats, J. S. (Thomson, Jackson, Gourlay & Taylor), Glasgow
Connal, E. J. G. (John E. Watson & Co), Glasgow
Couts, D. F. (John M. Taylor & Co), Glasgow
Couts Donald, W. F. J. (Finnie, Ross, Welch & Co), London
Craig, H. C. (Martin Currie & Scott), Edinburgh
Craig, J. B. (McCelland, Moores & Co), Glasgow
Currie, J. (Turner, Hutton & Patrick), Glasgow
Currie, J. (Turner, Hutton & Patrick), Glasgow
Day, J. E. I. (Thomson McLintock & Co), Clasgow
Duncan, S. P. (Flockhart & Grant), Aberdeen
Duncan, T. W. (M. M. Kesson & Co), Glasgow
Fernie, M. D. (W. A. Wighton & Crawford), Edinburgh
Folami, S. O. A. (Alexander McOmish, Hart & Co), Glasgow
Frost, D. V. P. (Thomson McLintock & Co), London
Gallagher, E. J. (D. M. McNaught & Co), Glasgow
Gernard, J. N. (French & Cowan), Glasgow
Glen, R. (J. Douglas Henderson & Co), Edinburgh
Goldie, L. E. (Boyack, Whitelaw & Aitchison), Edinburgh
Graham, N. J. (Reid & Mair), Glasgow
Halliday, I. D. (James Milne & Co), Aberdeen
Hanson, R. A. (D. M. McNaught & Co), Glasgow
Harris, T. B. (J. Harley Hepburn), Kirkcaldy
Harvie, R. (Hardie, Cuthbertson & Co), Glasgow
Harris, T. B. (J. Harley Hepburn), Kirkcaldy
Harvie, R. (Hardie, Cuthbertson & Co), Clondon
Hendry, G. (Henderson & Loggie), St Andrews
Hill, (Miss) E. F. (Thomson McLintock & Co), London Harvie, R. (Hardie, Cuthbertson & Co), Glasgow
Hay Drummond, R. V. (Brown, Fleming & Murray), London
Hendry, G. (Henderson & Loggie), St Andrews
Hill, (Miss) E. F. (Thomson McLintock & Co), London
Howie, J. C. (J. Wylie Guild & Ballantine), Glasgow
Howie, S. L. (Moody Stuart & Robertson), Dundee
Hutton, J. M. (Russ, Ferguson & MacLennan), Glasgow
Kerr, A. (F. A. Ritson & Co), Aberdeen
Kilpatrick, J. (Henry Brown & Co), Kilmarnock
Lazell, P. (Peat, Marwick, Mitchell & Co), London
McAra, J. A. S. (McClelland Moores & Co), London
McClure, M. (Welsh, Walker & Macpherson), Greenock
Macdonald, P. J. A. (Stevenson & Kyles), Glasgow
McDonnell, B. M. (Lindsay, Jamieson & Haldane), London
McGhee, J. (Chas, Leigh Brown & Son), Glasgow
McGourtry, F. (Peacock & Henry), Glasgow
McGourtry, F. (Peacock & Henry), Glasgow
Mackenzie, A. N. (McLachlan & Brown), Glasgow
Mackenzie, A. N. (McClelland Moores & Co), Glasgow
McKnight, H. (Fleming & Wilson), Glasgow
McLean, A. T. (Chrystal, McIntyre & Co), Glasgow
MacLeod, D. M. MacR. (Davidson, Downie & McGown),
Glasgow
MMMiller, W. I. (Mackens & Son), Glasgow Glasgow McMillan, W. J. (Macharg & Son), Glasgow McNie, J. McG. (McClelland, Moores & Co), Glasgow Macpherson, A. N. J. (Howard, Howes & Co), London

Mansion, D. G. (Scott-Moncrieff, Thomson&Shiells), Edinburgh Martin, D. (Parker, Lawson & Stevenson), Glasgow Martin, D. (Whyte, Stevenson & Roberts), Glasgow Matheson, A. W. (Mackie & Clark), Glasgow Mellick, S. C. (John E. Watson), Glasgow Mellick, S. C. (John E. Watson), Glasgow Mellick, S. C. (John E. Watson), Glasgow Midleton, I. A. (James Garden), Aberdeen Millar, W. G. (Nelson, Gilmour, Scott & Co), Glasgow Midleton, I. A. P. (Mann, Judd, Gordon & Co), Glasgow Miller, J. (Mann Judd Gordon & Co), Glasgow Miller, J. (Mann, Judd, Gordon & Co), Glasgow Moir, D. MacD. (Paterson & Benzie), Glasgow Moir, D. MacD. (Paterson & Benzie), Glasgow Moore, R. P. (J. W. & R. N. Oswald), Edinburgh Murray, J. B. (Mackay, Irons & Co), Dundee Nicoll, W. M. (Alexander Tosh & Son), Dundee Oliver, R. F. S. (James Milne & Co), Aberdeen O'Neil, R. (McLachlan & Brown), Glasgow Paterson, R. (Davidson & Workman), Glasgow Paterson, R. (Davidson & Workman), Glasgow Paterson, D. (Williamson & Dunn), Aberdeen Patrick, J. (Turner, Hutton & Patrick), Glasgow Pearce, A. M. (John M. Geoghegan & Co), Edinburgh Philip, J. B. F. (Thomson McLintock & Co), London Philp, A. H. (A. C. Philp & Co), Dunfermline Pilley, S. A. E. (Thomson McLintock & Co), Glasgow Pringle, R. W. (W. B. Pringle & Watt), Dundee Ramsay, J. T. L. (Wilson, Stirling & Co), Glasgow Richmond, W. I. (Graham, Smart & Annan), Edinburgh Robertson, W. E. (Macmillan & Copland), Glasgow Robson, S. G. (Grahams, Rintoul & Co), Glasgow Ross, J. J. (Macdonald, Stewart & Co), Glasgow Ross, J. J. (Macdonald, Stewart & Co), Glasgow Savery, T. S. (Thomson McLintock & Co), London Scott, R. B. (W. A. Wighton & Crawford), Edinburgh Shaughnessy, M. A. (Scott-Moncrieff, Thomson & Shiells), Edinburgh Shaughnessy, M. A. (Scott-Moncrieff, Thomson & Shiells), Edinburgh Singer, G. B. (Jas. A. Jeffrey & Co), Aberdeen Smith, G. C. (Peat, Marwick, Mitchell & Co), Glasgow Soo, H. S. (Walker & Walker), Edinburgh Steveley, D. (James A. B. Boyd & Co), Glasgow Steven, H. S. U. (W. A. Wighton & Crawford), Edinburgh Stewart, O. (Kirk & Johnson), Glasgow Stewart, N. T. (J. W. Jarvie & Co), Glasgow Still, I. M. McK. (McClelland Moores & Co), Glasgow Still, I. M. McK. (McClelland Moores & Co), Glasgow Stokes, G. R.-I. M. (Deloitte, Plender, Griffiths & Co), London Stowell, B. H. (Layton-Bennett, Billingham & Co), London Sweet, W. W. (Norman J. Bird & Co), Dundee Syme, J. G. (Thomson McLintock & Co), London Taylor, T. S. (Wood Willey & Co), Dartford Terret, L. (F. D. Greenhill & Co), Glasgow Thomson, A. H. (Thomson McLintock & Co), Glasgow Thomson, A. H. (Thomson McLintock & Co), Glasgow Thomson, A. E. (Brechin, Cole-Hamilton & Co), Glasgow Varney, A. F. (Rowand & Co), London Waldron, A. (Girdwood, Allison & Logan), Ayr Walker, G. A. J. (French & Cowan), Glasgow Walker, G. A. J. (French & Cowan), Glasgow Walker, G. H. (Robertson, Davies & Co), Glasgow Walker, G. H. (Robertson & Maxtone Graham), Edinburgh Wilkie, I. W. A. (Nelson, Gilmour, Scott & Co), Glasgow Wilkinson, A. W. (Wm Home Cook & Co), Edinburgh Wilson, A. R. (Charles Burrows & Co), Edinburgh

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NOVEMBER 3RD, 1962

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News from the London

Chartered Accountant Stud-

ents' Committee

## Money Values and Accounts

N less than a quarter of a century the purchasing power of the pound sterling in the United Kingdom has declined by about two-thirds. Thus older people, who are inclined to keep turning to the past in any case, often divide present-day prices by three to see what would have been the equivalent 'before the war'. This, for them, is an easy and sensible way of maintaining some kind of stability in a world of constant change. The modern industrialist, on the other hand, with his eyes fixed on distant horizons, impatiently brings the past up to date by multiplying the pre-war costs of his more ancient fixed assets by three in order to calculate how much of his splendid profits he must set aside to maintain the earning capacity of his plant.

The problem of how to tether the value of money so that injustices may be avoided is one primarily for economists, bankers, financiers and, seemingly nowadays, politicians. The task of recording money transactions, whatever fluctuations may have occurred, in such a way that they can be understood by everyone without recourse either to division or multiplication, is that of accountants, and it cannot truthfully be said that the profession has ever fully faced up to it. Ten years ago, at the Sixth International Congress on Accounting in London, a large number of accountants listened to and commented on a number of excellent papers on fluctuating price levels in relation to accounts. About this time, also, certain professional bodies had made or were about to make statements on the same subject. These aroused polite interest on publication, but like the Congress proceedings, were quickly forgotten. In the absence of any concerted lead, companies have continued as before to produce accounts which are a hotchpotch of historical and current values and from which economists, investors and others find the greatest difficulty in calculating reliable ratios between - to mention but one essential comparison - profits and capital employed.

At the recent Eighth International Congress of Accountants in New York, Mr W. E. PARKER, C.B.E., F.C.A., returned to the charge in a paper - the first part of which is reproduced in this issue - on the bearing on accounting of changes in the purchasing power of money. He clearly restates the problem and presents a solution which if, on his own admission, is not new, nevertheless deserves careful study.

Put briefly, his proposal is that, as a first step, the usual accounts submitted to shareholders should be supplemented by statements showing the effect on the 'traditional' accounts of changes in the value of money. In general, the 'traditional' accounts would be

based on 'historical cost'. The supplementary statements would be based on 'historical cost' expressed in terms of the current value of money. The items so translated would be all those which represent the consumption or ownership of goods and services and would include the balances which reflect the ownership of the business by the equity shareholders. In the profit and loss account (which covers a period of time), the current value of money would be that at the time of consumption of the various goods and services. In the balance sheet (which deals with a particular moment of time) the current value of money would be that at the balance sheet date. The effect

of these supplementary statements would be to show the changes in money values not only on the trading outcome but also on the funds and financing of the business.

Mr Parker describes these measures as 'a first step' towards the presentation of completely realistic financial statements and considers that the practical difficulties of producing them would not be unsurmountable. It would be interesting to learn the experiences of any readers who have had occasion to prepare similar accounts, both as regards the methods of preparation and the uses to which the information so derived was put.

## Short-term Gains - XVII

#### MISCELLANEOUS TRANSACTIONS

EFORE Case VII liability can attach under section 10 of the Finance Act, 1962, there has to be an acquisition and a disposal of an asset. We have seen how the disposal need not be by sale; it can be by gift or in other ways. Moreover, where there is no ordinary sale at arm's length there are provisions for adopting the market value of the asset at the time of the transaction. These provisions could cause hardship where the acquisition and disposal were part of a mortgage transaction. Accordingly section 12 (9) of the Act provides that a conveyance or transfer by way of security is not to be treated as involving any acquisition or disposal. This applies whether one transfers an asset, or a subsisting interest in it, or a right over it. A similar provision applies on re-transfer from mortgagee to mortgagor.

Having laid down this general principle, section 12 (9) goes on to deal with the special case of rights to money secured on land. The chief example is mortgage money. However, the subsection also applies to rights to periodical payments issuing out of the land, provided that the periodical payment is not incident to an estate or interest in the land – an exception presumably aimed at ground-rents. Such rights to money are to be treated as assets other than land, and accordingly the statutory period, for Case VII purposes, is six months, not three years. Thus a person who buys and sells mortgages or deben-

tures secured on land will be dealt with in the same way as if he bought shares or stock.

When a mortgagee is not paid at the stipulated time, he has certain powers to sell the mortgaged property in order to recover his money. In certain circumstances he can cause some third party to be appointed to do the selling, the proceeds being applied to paying the costs, and the mortgage debt, the balance (if any) being paid over to the mortgagor, i.e. the borrower. Normally, of course, all this happens without the borrower wishing it. However, it would be possible for him to enter into a collusive agreement under which he was lent money on mortgage and under which the land was sold at a large profit in the three-year period. Conversely, a forced sale may occur in a genuine case, where the land is sold at a heavy loss to the borrower, within three years after he acquired the land. These situations are dealt with by section 12 (10) which is not confined to land. It provides that where a person is entitled to an asset by way of security, or is entitled to the benefit of a charge or incumbrance on an asset, and he deals with the asset for the purpose of enforcing the charge, his dealings with the asset are to be treated for Case VII purposes as though they were done through him as nominee by the person entitled to the asset subject to the charge. In other words, if a mortgagee sells the mortgaged property, one assumes for Case VII purposes that the mortgager has sold it. It follows that the

mortgagor bears the Case VII liability, if any, or has the benefit of the Case VII loss. The same applies where the sale is carried out, not by the creditor himself but by, say, a receiver appointed by the creditor under a special provision in the mortgage deed, or by the Court. It is a matter of opinion whether the mortgagor should be made to pay Case VII tax where the sale is genuinely made against his will.

To grant a lease of land is one way of disposing of it. However, it was not intended that leases granted in the ordinary course of turning one's property to account by letting it should attract Case VII tax. The provisions of Schedule A and the excess rent provisions are regarded as sufficient for that purpose. On the other hand, to grant a long lease is in effect to sell. Section 12 (11) of the Finance Act, 1962, cuts the Gordian knot by making the familiar twenty-one-year lease the dividing line. A person disposing of land by letting it for a term of less than twenty-one years is not to be chargeable to Case VII tax in respect of any acquisition and disposal by reference to that letting. One cannot avoid the subsection by making an agreement for consecutive short leases. The benefit of the subsection is withheld if the letting is 'accompanied by' another letting (or by an agreement for one) such that the combined terms amount to twenty-one years or more. Similarly, if the letting is accompanied by an agreement to dispose of the land the penefit of the subsection is withheld.

Section 12 (11) is in any case subject to the provisions of section 13 which deals with the computation of profit and loss. It will be recalled hat the computation is to be on Case I lines on the footing that the acquisition and disposal constitute an adventure in the nature of trade.

Given the following facts:

(i) a chargeable disposal of land;

(ii) the disponer had already granted an undertwenty-one-year lease which was excepted by section 12 (11);

(iii) the grant at (ii) had been made since a relevant acquisition (i.e. an acquisition within the statutory three years);

then the adventure is to be treated as extending to the letting at (ii) to the same extent as if the interest created by the letting had been included in the disposal of the land. It will be appreciated hat the chargeable disposal could be another etting. However, a number of agreements,

spread over a period, for under-twenty-one-year lettings, would apparently not be caught.

Paragraph 16 of the Ninth Schedule was introduced at a late stage in the Bill in order to protect persons selling land to authorities having powers of compulsory purchase. Such a person will not be chargeable on the proceeds if he can prove two negatives, i.e. that he neither:

(a) acquired the land at a time when he knew or might reasonably have known that it was likely to be acquired by the authority; nor

(b) taken any steps by advertisement or otherwise to dispose of the land or to make his willingness to dispose of it known to the authority or others.

We turn now to the question of debts, which are the subject of paragraph 15 of the Ninth Schedule to the Finance Act, 1952. When C. lends fx to D, an asset comes into existence, namely, a debt for f(x). It follows that by the transaction of lending, C. acquires an asset, which of course he can dispose of to a third party. The transaction need not be by way of loan; the debt may be, for instance, unpaid purchase money, or it may even result from an enforceable agreement to pay money for no consideration at all. Assuming that C. has given full value for the right, he is unlikely to be able to sell it at a profit, unless the debt agreement includes special advantages such as a high rate of interest. In the case of an ordinary debt, paragraph 15 (1) provides that the creditor 'shall not be treated as thereby acquiring the debt'. This is typical of modern slipshod drafting; what the draftsman presumably intended was that the creditor should be treated as not acquiring the debt; which is not the same thing.

Paragraph 15 (1) is subject to the inevitable exception. The sub-paragraph does not apply where 'the debt is on a security (as defined in paragraph 11 of this schedule)'. There is in fact no definition as such in paragraph 11; the paragraph merely says (our italics) that:

"security" includes any loan stock or similar security whether of the Government of the United Kingdom or of any other Government, or of any public or local authority in the United Kingdom or elsewhere, or of any company<sup>1</sup>, and whether secured or unsecured'.

The precise ambit of the exception is therefore doubtful.

Paragraph 15 (2) deals with two kinds of debts: (i) a debt on a security 'defined 'as above;

Defined in section 16 (1) to include every body corporate.

(ii) a debt acquired by the creditor from a previous creditor.

Satisfaction of such a debt (or part of it) is to be treated as a disposal by the creditor. This however is subject to paragraphs 11 and 12 of the Ninth Schedule (See The Accountant, October 6th) which deal with conversions of securities and with company amalgamations.

Sometimes a debtor discharges his debt by inducing the creditor to accept some property in satisfaction of the debt. The value of the property at the time is unlikely to be as much as the debt: otherwise the debtor would probably be able to raise enough money on it to settle the debt and still have something over. On the other hand, if the debtor is in poor circumstances, the

creditor is often content to accept property which is worth very much less than the face value of the. debt. In a sense, the creditor buys the property for the face value of the debt. However, for Case VII purposes, paragraph 15 (3) directs that not more than the market value of the property is to be taken into account. 'Market value' is defined by section 16 (1), i.e. the price which the property might reasonably be expected to fetch on a sale in the open market. This provision in paragraph 15 (3) prevents the debtor from being charged to tax on what is in a sense a purely notional profit. It also prevents the creditor from charging an artificially high cost of acquisition. However, if the case is within paragraph 11 or 12, then paragraph 15 (3) does not apply.

## Internal Control with a Computer

by R. MITCHELL, A.A.C.C.A.

THE age of electronic data processing systems is with us. There will be a substantial increase in the number of users of electronic equipment over the next few years, either possessing their own equipment or hiring time from a bureau. Small computers are already being produced to attract the small- and mediumsize organizations, and it must be only a matter of time before there is a break-through into the production of a cheap, fast access store, to make them more competitive with the conventional punched-card equipment.

The computer makes it feasible for the whole of the accounts to be processed by one machine, including the revenue accounts and balance sheet. The field is a challenging one, enabling management to have information faster and receive information previously impracticable on conventional equipment. Accountants should, accordingly, familiarize themselves with these electronic systems to determine their capabilities and limitations. This article is intended to deal with one aspect of the system – the control over

It is the responsibility of management to maintain an efficient system of internal control. Generally, the control should be simple to be effective; it should be purposeful, and for any condition it should not be duplicated. Any aspect in the control should not be looked at in isolation. The auditors will need to appraise the internal

control to determine its strengths and weaknesses, to form an opinion as to whether the books of accounts properly record the operations of the organization.

#### **Principles of Internal Control**

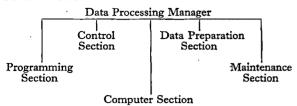
The principles of a good system of internal control may be summarized as follows:

- (1) Proper segregation of functional responsibilities.
- (2) Correct allocation of duties within the functions.
- (3) Quality of personnel that is commensurate with responsibilities.
- (4) Efficient system of authorization and recording to control capital and revenue items.

It can be seen, therefore, that internal control covers a much wider area than the financial and accounting departments. The methods of control in general terms should have been agreed by the systems analysts, programmers and auditors at an early date in the design of the accounting procedure. At this early stage it may only have been possible to agree the organization plan of the data processing unit. At a later date, when more detail flow charts have been prepared, then the question of control over the data flow can be settled.

Management's first responsibility towards the data processing unit is to see that it has an efficient organization that is easily administered. Generally, the computer serves the company as a whole and for this reason is not usually controlled by one of the functional managers.

The organization of a data-processing unit could be as follows:



The responsibilities and duties of selected sections will be discussed when considering the flow of information through the unit.

For convenience, the control of the information from the production of the source document to the end results produced by the computer may be divided into three sections: (a) control of information to and from the computer; (b) control over the processing of the data within the computer; (c) check over programmes and files. Each section is now dealt with in turn.

## (a) Control of Information to and from Computer

1. Source documents: There should be effective control over the preparation of the source document. It may be that the coding of the creditor's name on the invoice used as a punching document implies writing up the bought ledger and the bought daybooks. Should the sales department be allowed to pass a coded delivery document to the control section when that department is also responsible for the fixing of discounts and allowances with customers? In this instance, the operating department is surely responsible for the recording of their sales; routing the delivery note through the accounts department to be coded there and having authorized terms on separate sheets of paper may involve a duplication of effort and slow up considerably the transmission of the document to the computer.

Preferably recording should be done outside the operating department and there should be very good reason for any departure from this principle. Where, however, it is decided that this cannot be done, then the allocation of duties and the methods of authorization in the operating department should be examined to ensure that it prevents any irregularities through human weakness.

The introduction of a computer may involve looking further than the control of the data flow, and organization changes may be necessary.

2. Routing documents to control room: All source documents sent to the control room should be batched and supported by a numbered control slip (or a control book). The control slip should show the number of documents in the batch and a batch total of information that is being used by the computer, e.g. hours from clock cards.

3. Action in control room: The duties of the control room should include the handing out of source documents to the data preparation room, issuing to the computer operator the input media, programmes and tables, and receving back the computer's end results. The movement of the data will be in accordance with the machine load chart.

The control room will be responsible for ensuring that all the numbered batch slips are accounted for. The particulars contained on these slips will be entered in a register for higher grouping requirements.

The control room will determine the control totals for each batch of data sent to the computer. The operator before commencing the processing programme will produce evidence to the control section that the computer has agreed these totals. This will generally be by means of a print out. Where data has been transmitted to the computer by means of paper tape, the tape itself should contain a control total.

Sometimes it is necessary for balancing to be carried out on peripheral equipment to release the computer for more important work. Whichever method is adopted the aim should be to provide the computer with accurate and comprehensive information.

An alternative method is to punch a card from the control slip; the computer is programmed to test whether the detail cards agree to the control card before commencing to process the data.

4. Data preparation control: The duties of this section include manually converting the information in the punching document to machine language and reproducing and interpreting cards and tape.

All fields punched must be verified. Whether it is necessary to verify prepunched cards that have been pulled from a master file depends whether it is possible to verify the card with the punching document at the pulling stage, and the importance the pulled card plays in the data pack. A master card may contain the customer's code and name; if the punching document contains these details then on pulling by reference to the code, the interpreted name on the card can be compared with the name on the punching document.

5. Operators' duties: The operators should not have access to the control section or the data preparation section. This ensures that all machine processing is controlled independently of the operators. There should be a manual of instruction for the operators to follow; this should include instructions as to the general running of the machine, the action on the showing of the external indicators on the console and the routine to be followed if the machine stops owing to an error etc.

Rules should be established as to the keying in of information through the console. A case where this is done is in a restart procedure where the computer is instructed to return to a particular location in the programme; this location is keyed in. Unlike informa-

tion received by means of cards or tape, it is unlikely that this information will be verified. If it is not possible to restrict the keying in to such information as dates, invoice numbers, etc., then immediately the data is keyed in, the computer should be programmed to print out the data received, this to be controlled by the control section.

Each job should have written instructions referring to the files used, sequence of the cards or tape feed to the computer, and paper required etc.

## (b) Control Over Processing Data within the Computer

- 1. Machine checks: The programme checks will depend on the degree of confidence the programmer has in the machine control over the operation in question. Some of the more important machine checks are:
  - (i) Parity checks on transfers: A word of core store is made up of a number of 'bits'. Assume that each stream consists of a stream numeral for each digit position. A 'bit' is either 'off' to represent o or 'on' to represent the stream numeral. On receiving the information the computer determines whether the number of bits in each stream is odd or even, if it is odd then the check bit is set. An example should illustrate this point.

Stream No.		in l	wo loca: Vore	tion		?	Check bits
8	0	0	0	0	0	•	•
4	0	•	0	•	0	0	o off
2	0	0	•	0	0	0	• on
1	0	0		- 0	•	•	•

To record o 4 3 4 1 9

Every time a transfer takes place an automatic check is made to see if the check bits are the same in the new location. On arithmetric functions, generally the bits are dropped prior to entering the register and regenerated after the calculation is made and the result is on its way to storage. There is, therefore, the slight possibility that a word bit could be dropped before the parity bit has been regenerated.

Similar checks are used for stored information on magnetic tapes, discs and magnetic

(ii) Reading input: There are various methods to ensure that the card reader has read the data correctly. One method involves reading the card with two independently controlled heads and comparing the results. Another is a double count of the holes in each index point in the card.

(iii) Punching output: After the card has been punched, the card is immediately read back and compared.

- (iv) Print output: Unlike the punching of a card by the computer there is no check that the print out is correct. All information to the point of leaving the print buffer is controlled in the normal manner, but the wrong print hammer could be generated. Experience has shown that provided preventative maintenance is carried out the possibility of this happening is remote. Computers have relatively short lives and the mechanical components are usually very reliable during this life.
- (v) Writing: The writing on magnetic tape is usually verified by reading back and compared immediately after writing.

There are generally no such facilities for drums or discs, to ascertain that the correct information has been written. The parity on other similar checks will, of course, be made before the information is received back in fast access store.

(vi) Indicators: Various internal indicators are set or unset automatically by the computer when certain conditions are present. These can be tested by programme. On reading in a card the sequence of operations could be, instruct to read six columns into the buffer, while this is being done the computer is processing on some other data, then return to the full buffer. and transfer the information to core store. If, however, the programme failed to return to the buffer in time, the next six columns of the card would over-write the first six columns, but a special indicator would be set. Therefore, immediately prior to transferring the contents of the buffer into core store the indicator is tested to see if anything has been missed.

There are also external indicators. The action to be taken in the event of these showing will be defined in the operators' manual.

- (vii) Card and paper feed: A check is present to prevent the computer's print unit and punch unit operating after the paper feed and card hopper are empty.
- (viii) Double circuiting: Because of the reliability found in computers and the cost involved, the arrangement for all calculations to be agreed after being done on different circuits has not been incorporated in modern designs.
- 2. Programme Checks: The object of incorporating checks in a programme extends further than ensuring that the final results are correct, it ensures that time is not wasted in processing data containing an error. Checks that are sometimes written into a programme include:

- (i) Plausible test: The net salary of workers of a particular department may be within certain limits. The programme ensures that the final calculation is within these limits.
- (ii) Code check: The computer is able to test that a code is an acceptable one. Assume that a customer's code received was 237433, the programme directs the selection and computation of 2+7+3÷9, this provides one with 3 as the remainder, the 3 is then compared with the last digit. Usually the method adopted is more sophisticated than adding every other digit and dividing by 9. Although the placing of this last digit adds security, it does restrict the codes that can be used.
- (iii) Restart positions: To prevent having to return to the beginning, in case of an error in processing, restart positions are built into the programme, at these points any accumulating totals are stored away. After the fault has been diagnosed and corrected the computer returns to the last restart position and picks up the accumulated totals.
- (iv) Transfer to and from backing stores: Information written on drums and discs comes from core store and the record is not generally obliterated by transferring the information to another part of the computer. As illustrated in (b) I (v), the correctness of records written on backing stores cannot sometimes be ascertained until it has been brought back into core store. In some cases the programmer may feel that it is necessary, immediately after writing, to transfer back and compare with the original. This discovers errors before processing commences.
- (v) Card pack check: The programme ensures that the packs of cards for each transaction are complete and in sequence before calculation, updating, etc., is commenced.
- (vi) Tape reference: To ensure that the operator selects the correct tape file, the computer tests the first record on the tape which is referenced to the input media.
- (vii) Reverse operations: In (b) I (i) it was shown that there is no absolute check that A.×B.=C. To overcome this after the result has been calculated the computer computes C—(A.÷B.) to test if the answer is equal to o.

The same register that performs the arithmetic calculations is generally used in the modification of programme steps, and a faulty unit giving rise to an incorrect modification would soon be very apparent. For this reason, if the computer has a reliable fault-free record this check is generally not used.

A record should be kept of all machine faults. Any fault occurring frequently should be covered by a programme check if possible.

#### (c) Check Over Programmes and Files

1. Writing and amending programmes: A procedure for writing and amending programmes should be laid down.

After the first programme has been debugged, programme sheets should be initialed by the programmer and chief programmer. Any amendments to the programme should be made on the written authority of specified persons; the amendments should be initialed as above. The internal auditors should have a copy of the programmes and amendments, and should see that the programme sheets bear evidence of proper authorization.

- 2. Programme standardization: Standardization should not be carried to a stage resulting in inflexibility. There are, however, advantages in using standard flow-chart symbols, subroutines, terminology and programme checks. The internal auditor should be satisfied that all standard procedures are being adhered to.
- 3. Index, tables, etc.: A similar procedure to the control over programmes should be carried out controlling constant information and amendment thereto.
- 4. Dumping: It is not always possible to start and finish a job in the same working day. The question then arises: Should the information be left stored in the computer or should it be dumped on to tape or cards? In those instances where information is lost when the current is cut, then undoubtedly the information should be dumped and fed in the following day. It is also a good practice to dump information even when the information is not lost. This is a safeguard against interference by the uninitiated.
- 5. Keeping files: Tape (magnetic and paper) and cards should be kept when not is use in fireproof cabinets in an environment as recommended by manufacturers of the tape and cards. In the case of magnetic tape, the practice is to produce the son tape before overwriting on the grandfather, this ensures that the last tape (the father) can be reconstituted if desirable.

#### **Books of Accounts**

It may be academic to ask whether the spots on magnetic tape or the holes punched in tape or cards, could be regarded as the statutory books of accounts? Presumably the answer would be, 'No they are not'. However, as tabulations can be produced from cards and tape undoubtedly the former would be accepted as books of accounts.

Statutory requirements to have internal control over records produced by a computer are contained in section 436, Companies Act, 1948, which states that where bound books are not kept 'adequate precautions should be taken for guarding against falsification and facilitating its discovery'.

## Changes in the Purchasing Power of Money - I

by W. E. PARKER, C.B.E., F.C.A.

#### The Problem

THE following tables¹ based on an index of 100 for the year 1938 illustrate by reference to the United Kingdom what I believe to be, throughout the world, the outstanding accounting problem of the present generation.

Year		rice level of con- imers' goods and services	Purchasing power of money in terms of price level of consumers' goods and services
1938		100	100
1950		202	49
1954		244	41
1955		251	40
1956		26´3	38
1957	·	271	37
1958		278	36
1959		278	36 36
1960		286	35

The problem is whether accounting should take cognizance of changes in the purchasing power of the money in which the capital invested in, and the income produced by, commercial activities is expressed, and if so how best to reflect in accounts the effects and consequences of such changes.

- 2. The problem relates to the presentation of significant accounting information not only to the general public as actual and potential stockholders in commercial undertakings but also to management, to creditors and to other interested parties. While in many respects the needs of all these interested groups may be identical, particular groups also have their particular needs, differing with the nature of their interest and the standpoint from which they view the information. Moreover, as between information provided internally for management and that made available externally for stockholders and others there is great difference in the scope for accounting presentation. In this paper I propose to consider the problem from the standpoint of the general public as actual or potential equity stockholders.
- 3. The problem is no new one. The value of money as measured by the goods and services which it buys never has been stable and never will be. The subject attracted attention in Britain as long ago as the beginning of the nineteenth century, and in other countries earlier still. In the present century it has again been brought into prominence in many countries by

The first part of a paper presented at the Eighth International Congress of Accountants in New York on September 24th.

the inflation and other economic disturbances resulting from two world wars. In Britain and America among others it has attracted increasing attention from accountants over the last thirty years. In that period and particularly since 1945 it has received extensive and intensive study out of which have emerged many differing views both as to the nature of the accounting problem and as to possible methods of meeting it. Because of the extent and intensity of the study which has already been given, I do not claim to offer now any new and original ideas. Because of the differences of opinion to which the study has given rise, I have made a point of writing this paper in the first person to emphasize that I speak for myself and not with the authority of the Institute of Chartered Accountants to which I belong. The text will no doubt reveal that I write as an accountant, not as an economist.

## Development of Opinion in Britain and North America

4. In Britain and North America – and I refer to these countries because their circumstances are more familiar to me – examination of the problem has proceeded from an initial general acceptance by the accountancy profession of the view that, at least so far as stockholders are concerned, the profits of a commercial undertaking can generally best be measured by setting against the monetary proceeds of its sales of goods and services the amount of money actually expended by the undertaking in providing the goods and services so sold. In my own country

Mr W. E. Parker, C.B.E., F.C.A., the author of this International Congress paper, is a member of the Council of The Institute of Chartered Accountants in England and Wales. He is also President of the Chartered Accountant Students' Society of London and is well known as the chairman of the committee which was set up by the Institute on training and education for the profession.



<sup>&</sup>lt;sup>1</sup>The tables do not embrace the year 1961 because this paper was written before the end of that year.

this method of measuring profit, commonly known as the 'historical cost' method, has had the merit that it has conformed until recently, and to a large extent still does conform, to the natural thinking of the ordinary man. To him commercial activity has seemed to consist in the making of money by using sums of money to buy goods and services with the object of turning these back, by sale, into greater sums of money; the profit is the amount by which the sum of money produced by the sale of the goods and services exceeds the sum of money laid out in providing them, and it is on the sale that this profit arises. For those who think of commercial profit in this way any departure from the 'historical cost' basis of measuring it will tend to confuse them unless and until their thinking can be changed.

- 5. If, however, the ordinary man is mentally attuned to an income statement in which the profit is measured in this manner, there is much evidence that he does not so readily understand its corollary, namely, a balance sheet in which the goods and services as yet unsold are similarly brought into account in the main not at what they are currently worth to sell (or even to buy) but simply at the amount of money which was laid out in acquiring them. The amount of the net assets shown by the balance sheet still tends widely to be interpreted as the current measure of the undertaking's wealth. It might well be that a change from the 'historical cost' basis of accounting, while tending to confuse understanding of the income statement, would produce a balance sheet which is understood better. But the difficulty remains of securing understanding at one and the same time of both documents.
- 6. To some accountants a change in the purchasing power of money is not a matter with which they feel any obligation to deal. They see the change as one affecting the prices of goods and services rather than the value of the money with which these are bought. As accountants they are concerned, they say, with the money itself rather than with what it may be used to buy. The fact that with rising prices monetary income may have to be ploughed back into an undertaking (or, failing that, more capital brought in from outside) to provide additional funds for the replacement of the goods and services which produce its income does not mean that the monetary profits have not been earned. The facts are that they were indeed earned but that changes in prices now make it necessary to find more money to finance the business.
  - 7. It would be difficult to contest this attitude to the accounting measurement of profit if the commercial activities consisted of a single and finite venture. In such circumstances the objective of those who provide the capital is limited; they put in their money with the specific object of getting it out again at the end of the venture. Whether they repeat the venture is a matter for subsequent decision; whether their monetary profit on the venture arises from one cause or another is interesting but largely academic.

But, where the undertaking for which equity capital is provided is not a single finite venture but a 'going concern' which is expected to go on going and in which the capital is therefore regarded as being, for all practical purposes, sunk permanently, one cannot escape the fact that, unless prices remain constant, monetary profits as now determined by reference to historical cost are likely to differ from the amount which can be distributed to the equity stockholders as income without prejudicing the continuance of the undertaking.

8. This problem was officially recognized by the professional accountancy bodies in North America and Britain in statements issued in the late 1940s. The American Institute's Accounting Research Bulletin No. 33, issued in December 1947, contained, among others, the following statement:

'In reporting profits today, the cost of material and labor is reflected in terms of "inflated" dollars while the cost of productive facilities in which capital was invested at a lower price level is reflected in terms of dollars whose purchasing power was much greater. . . . When there are gross discrepancies between the cost and current values of productive facilities, the Committee believes that it is entirely proper for management to make annual appropriations of net income or surplus in contemplation of replacement of such facilities at higher price levels.'

Compare with this quotation the following excerpts from Recommendation 12 issued just over a year later (in January 1949) by the English Institute of Chartered Accountants:

'In periods when rises in price levels are marked, businesses tend to become undercapitalized. . . . As stocks of materials are converted into goods and sold, and as fixed assets wear out or become obsolete, substantially greater amounts have to be invested in the assets which replace them than were invested in the purchase of those displaced; other working capital requirements likewise increase.

"The raising of new capital from outside sources necessarily implies a surrender by the proprietors of a proportion of their equity in the business or the

introduction of prior ranking capital.

'The Council wishes to draw attention to the fact that the funds which can be accumulated by businesses through charging sums against revenue in absorption of the historical cost of goods sold and assets consumed must, if the enhanced levels of prices are maintained, be inadequate to meet the cost of replacing goods and assets which were purchased at substantially lower levels. . . . It is, therefore, of the greatest importance that directors should be advised to consider, in relation to the circumstances of their company, the effects of the rise in price levels and the relative merits of (a) relying upon the company's ability to raise new capital as and when it may be required for the purpose of meeting enhancements in replacement costs, and (b) the desirability of setting aside and accumulating out of profits such sums for this purpose as may be practicable. In many cases this consideration may be a matter of major importance in determining the

amount of profits which, from the standpoint of financial prudence, should be regarded as available for dividend.'

It appears from these quotations that at that time both Institutes regarded the question as one of providing additional capital rather than a problem concerning the measurement of profit. Even so, the English Institute's statement, in another passage, mentions that

'a number of business men and their advisers... question the validity of the methods of profit ascertainment hitherto generally followed by industrial and commercial undertakings...'

and adds the following highly relevant comment:

"They (the business men and their advisers) do not challenge the generally accepted accounting principle that the profit of a period can be ascertained only after providing, by way of charges against revenue, adequate sums for remedying any impairment of the capital of a business which may have occurred in the ordinary course of trading in that period. Opinions differ however as to whether capital for this purpose means (a) the money contributed by the proprietors, including profits left by them in the business for financing it, or (b) the power of that sum of money to purchase a particular volume of goods or equipment."

9. From 1948 onwards the two Institutes continued, as did others, to study the problem, and in 1952 there became available a report on the results of the deliberations of a Study Group on Business Income initiated by the American Institute and a further statement, Recommendation 15, by the English Institute. To do justice to either of these publications, it is necessary to study their full text. For the purpose of this paper, however, I think it would be fair to quote the following passages from the American Study Group's 'Summary and Conclusions'.

'It would seem that in the longer view methods could, and should, be developed whereby the framework of accounting would be expanded so that the results of activities, measured in units of equal purchasing power, and the effects of changes in value of the monetary unit would be reflected separately in an integrated presentation which would also produce statements of financial position more broadly meaningful than the orthodox balance sheet of today. It is believed that statements of business income in which revenues and charges against revenue would be stated in units of substantially the same purchasing power would be significant and useful for many of the purposes for which income determinations are commonly used, if not also in reports upon stewardship.

'For the present, it may well be that the primary statements of income should continue to be made on bases now commonly accepted. But corporations whose ownership is widely distributed should be encouraged to furnish information that will facilitate the determination of income measured in units of approximately equal purchasing power, and to provide such information wherever it is practicable to do so as part of the material upon which the independent accountant expresses his opinion.'

vas presented as an amplification of its earlier statement of January 1949. It reviewed the whole problem in greater detail and the pros and cons of various suggested solutions. The conclusions reached were stated in the following terms:

'The Council cannot emphasize too strongly that the significance of accounts prepared on the basis of historical cost is subject to limitations, not the least of which is that the monetary unit in which the accounts are prepared is not a stable unit of measurement. In consequence the results shown by accounts prepared on the basis of historical cost are not a measure of increase or decrease in wealth in terms of purchasing power; nor do the results necessarily represent the amount which can prudently be regarded as available for distribution, having regard to the financial requirements of the business. Similarly the results shown by such accounts are not necessarily suitable for purposes such as price fixing, wage negotiations and taxation, unless in using them for these purposes due regard is paid to the amount of profit which has been retained in the business for its maintenance.

'On the other hand the alternatives to historical cost which have so far been suggested appear to have serious defects and their logical application would raise social and economic issues going far beyond the realm of accountancy. The Council is therefore unable to regard any of the suggestions so far made as being acceptable alternatives to the existing accounting principles based on historical cost.'

Accordingly the statement recommended that, unless and until a practicable and generally acceptable alternative is available, annual accounts should continue to be prepared, and the profits shown by them computed, on the basis of historical monetary cost; but it also recommended that members of the Institute in practice or in the employment of commercial undertakings

'should stress the limitations on the significance of profits computed on the basis of historical cost in periods of material changes in the purchasing power of money, and that they should draw attention to the desirability of . . .

- (b) showing in the directors' report or otherwise the effects which changes in the purchasing power of money have had on the affairs of the business, including in particular the financial requirements for its maintenance and the directors' policy for meeting those requirements, either by setting aside to reserve or by raising new capital;
- (c) experimenting with methods of measuring the effects of changes in the purchasing power of money on profits and on financial requirements.'

11. The features of these 1952 statements in Britain and America which strike me as being of particular interest are:

(1) despite some differences of emphasis, their remarkable similarity of substance, both recognizing difficulties of departure from the accounting bases at present used and familiar, but both advocating the development and issue of supplementary information to remedy the limitations of accounts so prepared;

(2) the change of attitude since 1947-49 in that, whereas then the problem was seen as one fundamentally of raising additional capital, now it is recognized in both statements as a problem also of the measurement of profit;

(3) the fact that in both statements the problem is seen as one arising not out of changes in the prices of individual types of goods or services but out of changes in the purchasing power of money.

An important pronouncement on 'Price Level Changes and Financial Statements' made in the latter part of 1951 by the American Accounting Association shows that this body too had reached the same three conclusions.

12. The third conclusion is especially important because there are many, among them in Britain a research group of The Association of Certified and Corporate Accountants (see Accounting for Inflation published in 1952), who have concluded that the solution of this and many other accounting problems lies not in adapting the 'historical cost' basis of accounting by means of adjustments for changes in the value of money but in abandoning the 'historical cost' basis and adopting instead a basis of 'current cost' which takes account of the current purchase prices and/or production costs of the particular commodities in or with which the undertaking is trading. Among the many arguments in support of 'current cost' is the contention, which has much to support it, that 'historical cost' is a method of accounting developed only in the twentieth century; a change to 'current cost' would not be an innovation but rather a return towards the greater wisdom of our ancestors.

#### 'Current Cost' versus 'Historical Cost'

13. Whatever may have been the wisdom of earlier generations or the circumstances of business enterprise in an earlier age, I submit that the choice between 'current cost' and 'historical cost' confronts us whether the value of money changes or not. Even if the value of money remained constant the stability of the general price level would embrace continual changes, albeit over the whole field of consumption compensating ones, in the prices of particular goods and services. As I see it, the 'current cost' method of accounting is designed to take account of these particular changes and is not directed primarily at the general changes which are superimposed on them when the value of money (as reflected in the general price level) alters. I agree that the adoption of the current cost' method would make an important contribution to solving the accounting problem of instability of the monetary unit but I do not agree with those who advocate this method specifically and solely for that reason. It seems to me that the valid argument (and I am not saying that I accept it) must be not that the 'current cost' method is the right solution in accounting for changes in the value of money but that, if the familiar 'historical cost'

method has to be adapted to meet such changes – an adaptation which necessarily involves some reeducation of the general public – it is wiser to grasp this opportunity for making a complete change to a different basis which, according to its proponents, would be more informative and useful than 'historical cost' even if the value of money (as distinct from the prices of particular goods and services) remained constant.

14. On that view it follows that the considerations which would govern a choice between on the one hand 'current cost' and on the other hand 'historical cost adjusted for changes in the value of money' are the identical considerations which have governed the choice between 'current cost' and 'historical cost' in conditions in which the value of money was regarded as stable. I am anxious to make this point because I believe there has been confused thinking on it.

of The Journal of Accountancy contained a remarkable article by Professor A. Goudeket on the 'current cost' (or, as he calls it, 'replacement value') method as applied in the accounting of his own company, the Philips Company of the Netherlands. I attribute no confusion of thought to him, but I quote the following important premise from his article as an illustration of a statement which, though leading in his case to the treatment of changes in the prices of individual commodities (whether or not these reflect any change in the value of money), is equally applicable to changes in the value of money.

'At Philips we hold the view that there can be no recognition of income for a period unless the capital employed in the business at the beginning of the period has been maintained, that is to say, after it has been established that the purchasing power of that capital at the end of the period is equal to that at the beginning of the period.'

Professor Goudeket was there speaking of the 'capital employed' in the sense of the particular kinds and quantities of assets held by the undertaking at the opening and closing dates respectively - kinds and quantities of which the proportions held change from day to day. He could equally have been speaking of the amount of capital put into the undertaking by the proprietors, irrespective of the proportions in which it happened to be represented by various kinds and quantities of assets at any particular time. Thus, his statement could well be interpreted as a reason not for adopting the 'current cost' method of accounting (which reflects changes in the prices of individual types of goods and services) but for adapting the 'historical cost' method so as to reflect changes in the general price level, that is to say, in the value of money.

16. As I understand them, some of those who would advocate the 'current cost' method even if the value of money remained constant would do so because, among other things, they attach importance

to distinguishing between on one hand the gain or loss which arises from the difference between current buying and selling prices at the time of sale and on the other hand the gain or loss which results from a change in buying prices in the interval of time between purchase and sale. For example, if goods bought for one hundred units of money were later sold for 150 units and by the time of the sale their replacement cost had risen to 120 units, the monetary profit of fifty units on the transaction would be attributed as to twenty units to the holding of the goods and as to thirty units to the selling of them. For certain special kinds of undertakings, for example, those of dealers in the commodity or foreign exchange markets, whose activities do not necessitate the carrying of inventories, I see clearly the merits of 'current cost' accounting; and I can well believe that, at least for management purposes, it would be useful to distinguish the speculative results of taking 'long' or 'short' positions in the saleable commodity from the trading results of contemporaneous buying and selling. Normally in such undertakings these two activities are not interdependent but are matters for separate and deliberate policy decision. But in the generality of commercial activities the carrying of a stock of merchandise is a prerequisite of selling and is therefore an inseparable part of the ordinary process of trading. In a manufacturing undertaking the size of the inventories will depend among other things on the length of time which it takes to bring the products from the raw material to the finished state; this in turn will depend on the character of the products, on the speed and rhythm of the production process and on a whole host of considerations unconnected with possible changes in the buying prices of materials, components and productive services in the interval occupied by the production process. In the retail shop the volume and variety of its stock of merchandise is intimately connected with the task of attracting custom, a consideration which is quite different from that of buying for a rise in price. In any undertaking the volume of saleable goods which it carries at any particular time will be liable to vary with variations in sales policy; for example, where a special sales drive is projected, additional stocks will be accumulated beforehand in anticipation of the increased demand which it is hoped will eventuate. Evidently, decisions on all such policy matters will be influenced by considerations of the probable trends of costs and selling prices, and speculative positions may be taken which represent a deliberate over-stocking or under-stocking in relation to ordinary trading requirements. It may well be informative, especially for management, to isolate from ordinary trading results the outcome of these special positions; but to do so involves first determining what the 'ordinary' trading requirements are, and these will vary from business to business and within any one business will vary with changing conditions. It is an extreme over-simplification to suggest that the results of ordinary trading can

be isolated from those of price changes by assuming that all goods sold could have been procured at the time of sale or by assuming some generally applicable norm for the interval of time between acquisition and disposal. Each individual business has its own particular circumstances, and accounting methods designed to measure significantly the success or otherwise of the various operations and policy decisions which are involved in its trading activities need to be applied with due regard for those particular and individual circumstances. It seems to me that trading profit or loss, at least from the standpoint of the equity shareholder, must be viewed as including against the background of the general price level, the consequences of successful or unsuccessful anticipation of the market for the particular goods and services in which the business trades. In the words of the English Institute's Recommendation 15:

'Whether prices are rising or falling the difference between the cost of an article and its current value may often result to a much greater extent from market fluctuations in the prices of particular goods than from any trend in the purchasing power of money. Such market fluctuations are an ordinary business hazard affecting profit or loss and their incidence on a particular business may be dependent to a considerable extent upon judgment in buying and on management generally.'

#### Effect on Monetary Resources

17. If the 'current cost' method of accounting were to be adopted not so much for its own sake (that is, on its merits in the conditions of a stable value of money) as for the contribution it would make to solving the accounting problem of monetary instability, my main criticism would be that it deals with only part of the problem. For the viability of most commercial undertakings depends not only on the possession of goods in the form of equipment and merchandise but also on the possession of requisite working capital in the form of cash and accounts receivable. In terms of money the amount required for this working capital will, other things being equal, vary inversely with changes in the value of money. Thus, if money loses one-third of its value, the amount of money required to finance accounts receivable will, other things being equal, be half as much again. To the extent that additional money thus required to maintain the working capital represented by monetary assets is not forthcoming from the concomitant increase in the monetary trading liabilities, recourse must be had either to borrowing or to the introduction of additional capital by the proprietors. Either of these courses erodes the rights of the original equity. If neither of them can be taken the undertaking must at best reduce its scale or at worst collapse. I do not see how, in measuring the results of an undertaking, the presumption of its continuing life can be reconciled with failure to take account of depletions in the purchasing power of its monetary resources when potentially such depletions could bring that life to an

end. Moreover, since it is the duty of management to maintain the undertaking, it is an important part of this duty to ensure that so far as possible the undertaking is protected from impairment of its resources by depreciation in the value of money. A management which recognizes the instability of money also recognizes that whenever cash and money receivable together exceed or fall short of the money payable a speculative position in money has been taken. If speculation in money is to be avoided, the undertaking must be managed and financed in such a way that the monetary assets and liabilities are kept in balance. In so far as in the particular undertaking they cannot, or are not, the consequences need to be measured and reported to the proprietors. The point is well brought out in the following passage in the English Institute's Recommendation 15:

'Unless all items were converted into the "new currency" and not merely selected items such as depreciation of fixed assets and consumption of stock-in-trade, the account would not, in a period of rising prices, reflect the loss in purchasing power arising from the holding of assets such as investments, debtors and bank balances or the gain arising on liabilities of fixed monetary amount. In businesses where such items are material in relation to fixed assets and stock-in-trade it would be inconsistent to ignore such losses and gains and to take into account only those arising on particular types of assets. To do so would not enable the effects of the diminution in the purchasing power of money to be measured so that they can be eliminated in ascertaining profits or losses. Similar considerations arise in a period of falling prices.'

18. In relation therefore to the equity in commercial undertakings I find myself in agreement with the American Accounting Association's conclusion in its 1951 statement:

"The measurement of price level changes should be all-inclusive; all statement items should be adjusted in a consistent manner'

and I find myself in disagreement with the American Institute's Study Group on Business Income who opposed this view, commenting in a postscript to their eport

'An "all-inclusive" adjustment would result, inter alia, in showing a loss rather than income as being derived from the maturing of a savings bond of \$100 which had been purchased ten years earlier for \$75 if the purchasing power of the dollar had fallen more than 25 per cent in the interval.'

would contend that it is inapposite to compare the eccounting treatment of a single and finite financial enture such as the purchase of a savings bond with he accounting treatment of a going concern which indertakes the provision of goods and services and by presumption is to go on doing so indefinitely. But the argument goes deeper than that. In my view of accounting is to be significant it must be related to the standpoint of those to whom the accounting being made. Where an investor, thinking in terms of money rather than what it will buy, puts his money

into a \$100 savings bond with the sole object of getting back in due course \$25 more than it cost, I would agree that there may be no very useful purpose in demonstrating to him, as a matter of accounting, what would have been the outcome if he had invested the money with a different object and therefore viewed the transaction differently. Where, however, an investor is thinking in terms of what money will buy and from that standpoint buys savings bonds in anticipation of a rise in the value of money, I do not consider that the accounting presentation of the outcome of his venture would be significant unless it reflected not only the interest earned on the outlay but also the consequences of whatever change in the value of money had occurred. Here is the core of my argument, for I believe that equity stockholders should regard, and increasingly are coming to regard, their investment in commercial enterprises as being not a monetary investment but an investment in what money buys. Moreover, it seems to me that the whole principle of accounting for a commercial undertaking on the basis of its maintenance and continuance is consistent, and only consistent, with that view. If therefore it proved expedient for savings bonds to be held by a going concern as a means of maintaining its undertaking, I should say that without question the accounts presented to its equity stockholders ought to incorporate the effect on the equity capital of changes in the purchasing power of the bonds so held.

19. Perhaps it is only fair that I should cap these arguments by saying that I do conceive and hope that in due time Governments, investors and workers (in whom I include managers as well as those whom they manage) will all become educated to thinking of wealth in terms not of money but of what it will buy. When that stage is reached the concept of profit and loss will be uniform and even the \$100 savings bond will present no special accounting problem. Until this stage is reached, there will be differing interpretations of profit and loss, and I conclude that we as accountants must cater for them.

#### **Action Taken by Governments**

20. Under the pressure of events a number of Governments have indeed from time to time been forced to move in the direction of recognizing changes in the purchasing power of money as a factor of which account must be taken in measuring the results of commercial activity - for example, the German Government in 1921, the French Government at various times since 1930, the Italian Government since 1936 and the Belgian Government in 1947. There is not the space in this paper to review the various measures adopted by these Governments but I think it is fair to say that they have been in the main ad hoc measures, dictated by fiscal and political considerations at the time, and that for the most part they were concentrated on increasing, in the conditions of inflation, the permissible deductions

for tax purposes in respect of charges against income for the exhaustion of the physical assets of commercial undertakings. If this comment does less then justice to any of the countries concerned, I hope that members of the profession from those countries will take the opportunity of attendance at the Congress to correct me. In Britain and North America the authorities seem to have been reluctant to accord official recognition to changes in the value of money as an integral feature of the measurement of commercial profit and loss. In all three countries,

Canada, Britain and the United States, 'accelerated depreciation' has been allowed in one form and degree or another, but, so far as I am aware, only the British Government has allowed for tax purposes over the whole life of a plant a greater deduction than the historical monetary cost and only the United States Government has formally recognized for measuring the consumption of inventories a LIFO ('last in, first out') principle which has broadly the effect of evaluating the consumption at current prices.

(To be concluded.)

## Weekly Notes

#### NEW LEGISLATIVE PROGRAMME

T the opening of Parliament on Tuesday the A Queen's speech promised legislation on a number of different topics. It seems that the recommendations of the Molony Committee on consumer protection are largely to be adopted; that is to say that the Weights and Measures Acts are to be extended and brought up to date, and a Consumer Council established in order to represent the interests of consumers in general. There is to be a Bill to increase the pensions of retired members of the public services and their dependants, while the Government promises to keep under close review the position of war pensioners and people receiving National Insurance benefits. It is strange that, generally speaking, weekly wage earners are still entitled under the general law to only one week's notice of dismissal, no matter how long they have served. There is to be a Bill which will lay down the period of notice, and will also make it compulsory for employers to give to employees a written statement of the terms on which they are employed. Notwithstanding vociferous opposition, the legislation for reorganization of local government in Greater London is to go ahead. Another Bill will provide for the conservation and development of water resources in England and Wales; it follows on the report of the Central Advisory Water Committee, with which the Government is in general agreement. Persons employed in offices and shops will be the beneficiaries of a Bill directed to securing their health, safety and welfare while so employed.

On the general front, further improvements are to be promoted in the housing, health and welfare of the people generally. Local authority health and welfare services are to be the subject of planned development over the next decade, in parallel with the development of hospitals. There is to be a Bill to extend the powers of local authorities in connection with the care of children. Attention will be given to improving the supply of school teachers, while the expansion of university and technical education will continue.

#### JOINT SECRETARIES OF THE INSTITUTE

MR F. M. WILKINSON, F.C.A., and Mr C. A. Evan-Jones, M.B.E., became Joint Secretaries of The Institute of Chartered Accountants in England and Wales on November 1st following the retirement as Secretary of Mr Alan S. MacIver, C.B.E., M.C., B.A.

Mr Wilkinson, who is aged 48, has been Deputy Secretary since January 1st, 1960. After serving his articles in a small provincial practice he was admitted to membership of the Institute in January 1936 and then took up a commercial appointment until the outbreak of war in September 1939. He served with the Middlesex Yeomanry (T.A.) until being invalided from the army in August 1940. In May 1944 he joined the Institute staff and was appointed an Assistant Secretary in January 1946. For the following eight years he also served as Secretary to the Taxation and Research Committee.

Mr Evan-Jones, who is 50 years of age, has been an Under Secretary of the Institute since January 1st, 1960. Prior to the Second World War he had nine years' experience in industry, and during the war, in which he served in the Gordon Highlanders, he saw active service in the Western Desert and in Italy, attaining the rank of Lieutenant-Colonel. He returned to civilian life in December 1945 and in 1946 joined the Society of Incorporated Accountants, becoming Assistant Secretary in 1947 and Deputy Secretary in 1950. Following the integration scheme with the Institute in 1957 he joined the Institute's staff, acting temporarily as Secretary to the Board of Examiners for the Society's examinations, and subsequently becoming an Assistant Secretary on May 1st, 1959.

A further Institute appointment also took effect on November 1st. Miss Margaret J. D. Reynolds, B.A., who has been a member of the staff for fifteen

years and an Assistant Secretary for nearly three years, is a new Under Secretary of the Institute.

### P. D. LEAKE RESEARCH FELLOWSHIP

THE Institute of Chartered Accountants in England and Wales, as Trustee of the P. D. Leake Trust, has been advised that Mr G. Patterson, F.C.A. has been appointed to a P. D. Leake Research Fellowship tenable in the University of London at The London School of Economics and Political Science for the academic year 1962–63. Mr Patterson proposes to conduct research into 'the effects on ship design of the economics of ship operation'.

The P. D. Leake Trust is a charitable trust created under the will of the late Percy Dewe Leake (a member of The Institute of Chartered Accountants in England and Wales from 1886 until his death on November 27th, 1949), for the benefit and advancement of the sciences of accounting and of political economy including the subject of public finance and taxation. The P. D. Leake Committee decided in 1956 to provide funds for the establishment of P. D. Leake Research Fellowships. The object of the Fellowships is to provide university facilities for experienced accountants to carry out research in subjects with which the accountancy profession is directly concerned within the charitable object of the Trust.

### COMMON MARKET LAW REPORTS

N Tuesday appeared the first issue of Common Market Law Reports, published by Thomas Nelson & Sons Ltd. It contains extensive reports of three cases, two before the Court of Justice of the European Communities, and one before the French Conseil d'État. The former Court was set up in Luxemburg to interpret the three great European treaties – coal and steel community, Euratom, and Common Market – and to control the executive authorities created to implement those treaties. Decisions of national Courts on litigation arising out of the treaties are also of interest since clearly they will be influential in shaping the way the treaties are interpreted throughout the European community.

If the United Kingdom joins the Common Market, hen it will be essential to have easy access to English ranslations of relevant decisions. But even independently of such an event the reports are of great nelp to lawyers and accountants advising clients who are engaged in trade with firms in the Common Market territories. The editorial board of the new series are three barristers, and the reports have been ranslated and edited either by them or by other parristers working under their supervision. Only two parts will be published this year but in future years here will be a quarterly issue, with bound annual rolumes published subsequently. Annual subscription for four parts is £9 gs. Annual subscription with

the right to an additional bound volume is £10 10s. Individual parts cost £2 10s plus postage; and the bound volume will be sold to non-subscribers at £12 12s.

### INFORMATION ON EUROPE

THE continuing economic integration of Europe, whatever form it may take, is creating a growing interest in obtaining information. Never before have British organizations of one kind or another shown as great an interest in the economic affairs and industrial structure of Continental Europe. The same is true in all European countries.

It is a small step from realizing the need to obtain information to appreciating the value of directories which explain where information is to be found. It speeds the finding of the information and prevents time being wasted looking for material which does not exist.

The latest recruit to directories on Europe is European Companies: A Guide to Sources of Information<sup>1</sup>. Sources of information on each country are assembled in five groups. These are, publications and services providing extensive financial information about each company; publications giving basic information in a concise form; publications setting out relationships between parents and subsidiary companies; directories of directors and executives and directories of banks, stockbrokers and finance houses.

This is a useful publication. Coverage in a first edition is inevitably uneven but it should be extremely useful for quick reference and as a means of avoiding hours of time spent searching for sources of information on companies.

### **EXECUTIVE SALARIES**

THE conference on executive salaries and fringe benefits organized by Associated Industrial Consultants in London recently, found in its discussions that fringe benefits were not a major item in the emoluments of senior staff in this country.

A summary of the first thousand questionnaires received in answer to a nation-wide survey on salaries and fringe benefits was presented. The report covered company secretaries in the upper average salary bracket of £4,350 a year and a lower average bracket of £1,625. The corresponding brackets for chief accountants were £3,775 and £1,475; cost accountants £2,690 and £1,170; and a number of other managerial groups in similar income brackets. According to the replies, 38 per cent of the sample were provided with cars (68.5 per cent sales managers) 29 per cent qualified for top-hat pension schemes and 99.6 per cent received retirement pensions.

<sup>&</sup>lt;sup>1</sup> Compiled and edited by G. P. Henderson, C.B.D. Research Ltd. Price 50s. Service sheets, approximately quarterly, 10s a year.

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### THE ACCOUNTANT

Bonuses were received by 53 per cent of the sample and of these 66 per cent were based on profits. The average of all bonuses paid was between £350 and £375, but bonuses of over £1,000 were paid to 10 per cent of all directors in the sample. The average value of fringe benefits was £122 a year. Benefits included lunches, expense allowances, car allowances, free life assurance and free housing. There were particular benefits in a small number of cases. These included loans for house purchase, car tax and insurance cover, free telephone, club subscriptions, travel to work refunded, and so on. So far as holidays were concerned, 5.6 per cent qualified for ten-fourteen working days, 44 per cent fifteen to nineteen, 31 per cent twenty to twenty-four and 3.5 per cent twentyfive to twenty-nine working days. Only o.8 per cent qualified for more than thirty working days holiday. These figures did not include statutory holidays.

### WELFARE READING?

NADEQUATE staff, underpaid librarians, long Awaiting lists for the latest books, dissatisfied publishers and exploited authors. Such, it would seem, is the present situation arising from the present public library system as described in the latest Hobart Paper, Libraries: Free for All? by Mr A. P. Herbert. An introduction by Mr Ralph Harris, General Director of the Institute of Economic Affairs, argues that even a modest charge of 3d per volume borrowed would produce £5½ million, i.e. as much as the present annual expenditure by public libraries on new books. Such an infusion of additional funds would convert the library system from its present state as a penurious relic of nineteenth-century paternalism to an agency equipped to meet the needs of the affluent society of the twentieth century.

For his part, Mr Herbert develops the now wellknown proposal that authors should enjoy the same benefit of copyright as do musicians and each time a book is borrowed, a nominal charge might be made. This scheme has been flatly rejected by the Library Association on the grounds that it would be administratively impracticable and the principle would conflict with the original conception of the free library service. As Mr Herbert and Mr Harris explain, neither of these defences of the status quo bears examination. Sweden is able to operate such a system and Mr Herbert's own proposals are simplicity itself.

On the role of the public library system in the midtwentieth century, when the average punter 'invests' 5s weekly in football pools, it would not be unreasonable to ask the average borrower, who gets about thirty books per annum from his library, to pay 7s 6d for the privilege. When it is recalled that 70 per cent of the total borrowings consist of light fiction, the cry that such a charge would run counter to the nineteenth-century ideal of educating the masses seems irrelevant.

### LEARNING TO EXPORT

BOOKLET has been prepared by the Board of Trade called How to Export.<sup>2</sup> Presenting it this week the President of the Board of Trade said that although a great deal had been written and spoken about selling for export there seemed to be a need for a short and comprehensive work which would direct a would-be exporter to find the right answers on how to set about doing it. The booklet has been written by Mr M. Shanks, industrial editor of The Financial Times.

The booklet has a useful contents page at the beginning and many of the sections, which are brief and to the point, proceed on the question-and-answer basis. The forty pages of the booklet are completed with a list of useful addresses in various parts of the country of organizations which can help with advice and facilities.

Subjects covered include how to get an agent and how to keep in touch with him, how to get paid, the part played by such organizations as E.C.G.D., role of the banks, how to use a merchant, how to use trade exhibitions, advertising and market research. It concludes with brief sections on design and packaging.

### FURTHER RISE IN LIFE OFFICES' BUSINESS

AN increase of £521 million to £6,163 million in policyholders' funds last year is one of a number of outstanding features of the annual statistics published last week by The Life Offices' Association, the Associated Scottish Life Offices and the Industrial Life Offices Association for the years 1957-61.3

Payments to policyholders - chiefly by an increase in payments under maturing endowment assurances - reached new record levels in 1961 at £326 million for ordinary life and annuity business, and £142 million for industrial business. The growth of demand for life assurance in all sections of society has been a notable economic feature of the past decade. A total number of 1,120,000 new ordinary branch policies were issued during the year as against 1,070,000 during 1960 and new yearly premiums rose by £5 million. Home service business saw a slight reduction in the number of new policies issued, but the amount of new yearly premiums issued showed a rise of  $f_0 \cdot 1 \cdot 4$ million. New single premiums for ordinary assurance and annuity business rose sharply from £46.5 million

<sup>&</sup>lt;sup>1</sup> Hobart Paper No. 19. Institute of Economic Affairs. 66A Eaton Square, London SW1. Price 6s net.

<sup>&</sup>lt;sup>2</sup> Available free of charge from Board of Trade Offices throughout the country.

<sup>&</sup>lt;sup>8</sup> British Life Assurance, 1957-61, available on request from The British Life Offices Association, 33 King Street, London EC2, Associated Scottish Life Offices, 23 St Andrew Square, Edinburgh, or Industrial Life Offices Association, Cheapside, London EC2.

in 1960 to £59.8 million in 1961. By far the greater part of this related to annuity business. New premiums for occupational schemes and 'self-employed' pension business in 1961 amounted to £63.5 million compared with £53.2 million in 1960. The increase largely reflects the setting-up of many new schemes and the improvement of existing schemes to facilitate contracting out of the Government graduated pension scheme which began during the year.

In spite of the relative attraction of yields from fixed interest stocks, there was no significant change in the overall investment of funds of the life offices in 1961. Government securities and ordinary stocks and shares accounted for 22½ per cent of total investment; debentures, etc. 20 per cent; mortgages and real property 17 per cent and 18 per cent respectively.

#### ANOTHER E.C.G.D. RECORD

BUSINESS declared by the Export Credits Guarantee Department under 'commercial' insurance during the third quarter of 1962 amounted to £221.5 million – a record for any quarter, and 16 per cent up on the corresponding quarter last year. The face value of comprehensive policies current at the end of the quarter was £944.2 million, compared with £835.4 million a year ago.

Taking new specific contracts together with contracts covered under comprehensive policies which involved more than six months' credit, the value of new business during the quarter where terms exceeded six months amounted to £45.8 million, compared with £49.2 million in the previous quarter and a quarterly average over the previous twelve months of £50.1 million.

### This is My Life...

by An Industrious Accountant

### CHAPTER 144

Our discontented assistant accountant, Arthur, of whose astronautical aspirations I wrote recently, put his head in the door and asked could he see me. Permission being duly accorded, he sat down, hands on spread knees, a seraphic smile splitting his ingenuous face, and said he was leaving us. He'd got another job.

Frankly, I wasn't sorry. He's been a dreamy, rather lackadaisical employee, though well-meaning and scrupulously accurate; never bad enough for severe reprimand, never good enough for promotion. So much the warmer were my congratulations, so much the deeper in my mind was I planning his prompt replacement. Arthur's departure would be welcome as clearing a promotional blockage . . . good man, Arthur! I beamed on him in return.

'I wonder if you could give me a good reference?' asked Arthur happily. 'My new boss would like one. I suppose I've done a pretty satisfactory job here, barring the odd clanger. Useful, too, if I ever change jobs again, to have your name to a testimonial.'

I was a little taken aback. His reference wouldn't be as glowing as he seemed to expect. What about that time he left the stock sheets in the bus... or dropped the general ledger down the lift shaft... or went abroad on holiday with all the office keys in his pocket. I temporized tactfully.

'It's against our policy to give references. Your new employer can phone me for a chat', I smiled, and his face fell. He might want the reference for use elsewhere some time, he protested, so I tried to soothe him with the assurance that I'd always respond to telephone or letter.

He brooded with tight lips; his disappointment was manifest. 'That's not much use to me,' he grumbled. 'You might be away.' His eye flashed indignantly. 'You might be out sick for ages. Jolly hard luck on me if they couldn't contact you... I might lose a good job just because you'd broken a leg or something.' This self-centred sentiment, I reflected, might have been phrased with more delicacy.

The telephone, I explained urbanely, was far more useful, if he'd only try to appreciate the position. Eulogies could be fuller, character analysis could be uninhibited, a balanced picture could be presented. (I had an intuitive feeling that he didn't want a balanced picture; he just wanted that eulogy.) My recommendation could be tempered to suit the new job specification; I might be able to say more if I knew his prospective employer, for instance.

Clearly, my words fell on stony ground. His eyes were hurt and hostile. But in fairness I wasn't prepared to gush unqualified praises; in fact I was reluctant to lay bare to public view his frailties and failings just now when he was leaving us. Obviously, our admonitions over the years hadn't registered with him at all; he saw himself as sans reproche; my letter would be the golden key to automatic success.

It was all far from simple. Furthermore, I pointed out, testimonials should be on a confidential ad hoc basis, not circulars to be distributed at random. Arthur rose without a word, cut to the quick, and left. I almost expected him to say 'Et tu, Brute', as he went out.

# Finance and Commerce

### B.I.C.C. Half-year

THE half-year report to June 30th, 1962, of British Insulated Callender's Cables Ltd, is the subject of our reprint this week. Like most improvements in company reporting, half-year figures have not arrived without opposition. It has been said it would be improper to present to shareholders figures that had not been audited. It has been objected that half-year figures might be misleading; that seasonal influences might distort the view; that they could be no guide to a full year's results.

How well this opposition reminds us of the objections of the past to the dropping of shillings and pence from published accounts; to the provision of comparative figures; and to the near-insuperable difficulties that stood in the way of consolidated figures. Yet the advance in company accounting has gone on and, in time, half-year figures will come to be taken for granted. It is the way things are moving

in accord with public opinion.

British Insulated's half-year statement speaks for itself. Its group sales figure is rounded-off to the millions; the rest of the figures are approximated to the thousand point – but do the last three figures really matter when dealing with millions of fs? The comparison goes back through three consecutive half-years, so that the view is not just of the first half of the year in isolation.

This, then, shows what can be done and what, it may be hoped, more companies will do as time goes

### Report

Figures are the more useful when accompanied with a report on them. With British Insulated's half-year is a report from the chairman, Sir William McFadzean, C.A. He first announces the board's decision on the interim dividend: 4 per cent actual (9.6d per £1 unit) less tax at 7s 9d; net United Kingdom rate 5s 3d; and the vital dates that matter when paying dividend.

He notes group turnover as 'fully maintained' and 'further improvement in our exports and overseas turnover'. Trading profit (£3,640,000) is up some 9.6 per cent over the first half and some 14.1 per cent

over the second half of 1961.

Overall profit rate on sales at 4.7 per cent, he says, 'although still inadequate in view of the very heavy requirements a progressive Group such as ours must have for technical development, research and new plant, shows a further welcome improvement on 1961'. These improvements, whilst aided to some extent by the higher turnover, were almost entirely due to the benefits of the reorganization programme

over the last few years and 'the continued drive forefficiency so vital under present world trading conditions'.

And then what lies ahead? With the exception of certain of the Group activities at home which have been adversely affected by the continued recession in the radio, television and domestic appliance industries, the profits of all our home and overseas operations have increased. On the basis of current figures and in the absence of any special factors which cannot be foreseen at this stage, the overall level of trading profits achieved in the first half of 1962 should be at least maintained during the second half of the year.'

### **Analysis of Success**

**F**OR some reason it is not as usual to seek to analyse the reasons for improvement as for recession but it can be at least as profitable an exercise, says Mr H. C. H. Graves, chairman of Vitamins Ltd. And for more than five thousand words, he proceeds with a most interesting review covering animal nutrition — not least, the human sector — as well as the economics of providing it, which Vitamins does. It is impossible to do justice to it in a few lines but it deserves this placing on record as a more than normally interesting chairman's statement.

Most of us will recognize the truth of his opening statement from life's experience. Success can pass unnoticed; failure brings the 'kicks' and the investigation. Good administration will keep both constantly

under review.

Mr Graves, in his statement, covers some of the hazards of the drug and fine chemical industry. One of the most dangerous – which has been publicized by chairmen of companies similarly situated – is the right claimed by the British Minister of Health to buy for the Health Service in the cheapest market, irrespective of any patent rights. It has, he points out, led to drug espionage: "The first such spy to appear in the Courts (and to be sentenced to gaol) came to trial only in July 1962 – and it may well be that the Minister will consider the moral aspect of his bargain purchases."

### The Accounts

On the accounts of Vitamins, two observations arise. First of all, the annual publication measures, unopened,  $6\frac{1}{2}$  inches wide by 12 inches deep, a rather unusual size that gives a page opening of 13 by 12 inches. In that space is presented in single column, either side of a centrally-disposed narrative, consolidated figures to the left and the company's own balance sheet to the right, with 1962 single-column figures on the inside against the narrative and 1961 single-column figures, of course, entail the rulings-off in the column for sub-totals.

It is a beautifully concentrated layout of two balance sheets and comparisons but, as has been sug-

# Report to Stockholders on Trading Results for the Half-year to 30th June, 1962 BRITISH INSULATED CALLENDER'S CABLES LIMITED

2th October, 1962

Dear Sir/Madam,

I have to advise you that on the 8th instant your Directors declared the undermentioned distribution on the Ordinary Capital:

interim of 4% actual (9.6 pence per £1 unit) less income Tax at 7/9d in the £ on

account of the year ending 31st December, 1962. Net U.K, rate 5/3d in the £.

Warrants will be posted on 16th November, 1962, payable on 17th November, 1962, to Stockholders registered in the books of the Company at the close of business on 12th October, 1962. The consolidated results of the Group for the half-year to 30th June, 1962, based on unaudited figures, are given on the opposite page together with the corresponding results for the half-years to 31st December, 1961, and 30th June, 1961. Group Turnover has been fully maintained with, I am glad to say, a further improvement in our exports and overseas turnover.

profit rate on sales at 4.7%, although still inadequate in view of the very heavy requirements a Trading Profits (before Investment Income, Exceptional Items and Taxation) at £3,640,000 show increases of some 9.6% over the first half and some 14.1% over the second half of 1961. Our overall progressive Group such as ours must have for technical development, research and new plant, shows a further welcome improvement on 1961. These improvements, whilst aided to some extent by the higher turnover, are almost entirely due to the benefits of our re-organization programme over the ast few years and the continued drive for efficiency which is so vital under present world trading conditions, . With the exception of certain of the Group activities at home which have been adversely affected by the continued recession in the radio, television and domestic appliance industries, the profits of all our home and overseas operations have increased. On the basis of current figures and in the absence of any special factors which cannot be foreseen at this stage, the overall level of trading profits achieved in the first half of 1962 should be at least maintained during the second half of the year,

WILLIAM McFADZEAN, Chairman Yours faithfully,

# SUMMARY OF GROUP RESULTS (based on unaudited figures)

	Half-year to 30/6/1962	Half-year to 31/12/1961	Half-year to 30/6/1961	
Group Sales	£77,000,000	£76,000,000	£75,000,000	
Surplus on Trading – See Note (1)	5,972,000	5,467,000	5,454,000	•
before charging: – Depreciation	1,485,000	1,455,000	1,424,000	
Interest on Debentures, Bonds and Loans	389,000	360,000	200,000	
Directors' Emoluments, Pensions, etc.	89,000	94,000	87,000	
Factory Re-organization Expenses Amounts transferred to Provisions	195,000	200,000	118,000	
	2,332,000	2,278,000	2,133,000	
Trading Profit	3,640,000	3,189,000	3,321,000	
Investment Income (Gross) – see Note (2)	26,000	700,000	62,000	
Profit before Taxation and Exceptional Items Less Taxation – see Notes (1) and (3)	3,666,000	3,889,000	3,383,000	
	2,049,000	2,034,000	1,912,000	
Exceptional Item's – see Note (4)	252,000	520,000	675,000	
Total Net Profit of the Group	62,301,000	£2,554,000	22,587,000	•
Proportion of Total Net Profit of the Group attributable to Holding Company	62,174,000	22,441,000	12,473,000	·

- (1) The net cost of terminating the Magna Pipeline Contract in May, 1962, amounted to £193,000 (£417,000 less tax relief thereon) and this sum has been charged to Revenue Contingencies
  - (2) investment income arises mainly in the second half of the year and the total for 1962 is likely to be similar to that for 1961.
    - (3) Taxation on profits for the half-year to 30th June, 1962, has been calculated on the basis of existing
- (4) Exceptional Items arise mainly from the realization of certain investments no longer required by the Group. The total 1961 credit of £1, 195,000 was represented mainly by Realized Capital Profits from Investments of £745,000 and adjustments of Taxation Liabilities for earlier years of £460,000.

gested before, the very concentration defeats the objective of presenting a statement that can be looked at and grasped, if not at once, at least without that feeling of being involved in a maze of figures. As an ideal, it is perfect but. . . .

The other point has recently been noted in another instance: the use of fold-out flaps to increase the space in immediate view. In this case, the left flap carries the profit and loss account and the right flap the notes on the balance sheets. Anything that brings a note into its close balance sheet context is well worth while.

### Centenary

THIS year marks the centenary of the City of London Building Society whose accounts have featured in this column more than once in the past. The Society has produced a *Centenary History*, 1862–1962, to which unfortunately justice can hardly be done in the space available here.

Two or three points of interest, however, merit attention. It was from its founder, James Higham

(1821–1903) that the call came to hold a meeting of representatives of London societies in 1869 which led to the foundation of the nation-wide Building Societies' Protection Association, the ancestor of the present Building Societies Association. And it was Higham's efforts that, against opposition, led to the Royal Commission of 1870 to inquire into both friendly and building societies, and in turn to the Building Societies Act, 1874, which placed all such societies under the control of a Chief Registrar.

Another point is that the Society stands apart with its 'varying interest' in respect of its mortgage contracts. It uses a formula, first devised in 1934, linking interest rates to a factor beyond the board's control; in recent years the factor has been the market standing of  $3\frac{1}{2}$  per cent War Loan.

Finally, it is noteworthy that the Society's chairman, Mr G. R. Appleyard, F.C.A., a past-chairman of the London and District Society of Chartered Accountants, is a great-grandson of the first chairman, who in his time was so prominent a personality in the City of London.

### CITY NOTES

In stock-markets the wide price fluctuations of the past two weeks have obviously shaken investment confidence. The Cuba affair may be past the critical stage but the international political atmosphere can hardly be described as calm.

Quite apart from political factors, there are still economic uncertainties to be considered. When the economic accent appears to be placed on ways and means to avoid recession rather than on methods to contain inflation, the background to the equity markets is not particularly impressive.

Mr Maudling still seems to be in no hurry to foster economic re-expansion despite pressure from the Federation of British Industries. A weather eye is being kept on the United States business position. Current forecasts, by economists there, of a business downturn in 1963 point to the need for a cautious approach to re-expansion in Britain.

The Cuba affair and its effect on the stock-markets has put out of joint the well laid scheme for inducing and holding a lower level of long-term interest rates. In the short-term end of the market, a sharp rise in the Treasury bill rate points to the growing view that Bank rate reduction is being ruled out of the reckoning for some time ahead.

Seasonal pressure on sterling and on the reserves seems to rule out Bank rate reduction possibilities at least until the New Year.

#### RATES AND PRICES

Closing prices, Wednesday, October 31st, 1962

Tax Reserve Certificates: (interest rate) 25.8.62 2½%

	Bank Rate								
Oct. 27, 1960	12% Nov. 2, 196	5r 6%							
Dec. 8, 1960	5% Mar. 8, 19	62 5 <del>1</del> %							
July 26, 1961	7% Mar. 22, 1								
Oct. 5, 1961	$6\frac{1}{2}\%$ April 26, 1	962 4½%							
· T	reasury Bills								
	od% Sept. 28 .	£3 128 8.42d%							
Aug. 31 £3 158 0.4	2d% Oct. 5	£3 12s 4·13d%							
Sept. 7 £3 14s 4.5	5d% Oct. 12	£3 128 3.07d%							
	7d% Oct. 19	£3 14s 8·22d%							
Sept. 21 £3 14s 0.0	1d% Oct. 26	£3 17s 2.03d%							
Money Rates									
Day to day 27	37% Bank Bills								
7 days 23	37% 2 month								
Fine Trade Bills	3 month	s 4 18 4 8 %							
3 months 5½		s 4.16-416%							
4 months 5½	6 month	s 418-418%							
6 months $5\frac{3}{4}$	5 <u>₹</u> % .								
For	eign Exchanges								
New York 2	801 Frankfurt	11.24							
Montreal 3	or 5 Milan	1739 <del>1</del>							
	11 <del>§</del> Oslo	20.03 <del>3</del>							
	39½ Paris	13.72							
Copenhagen 19.	387 Zürich	12.084							
	Gilt-edged								
Consols 4%	684 Funding 3	% 59-69 90 <del>1</del>							
	44. Savings 3%								
Conv'sion 5½% 1974 1	03 Savings 39	$65-75$ $81\frac{7}{8}$							
	014 Savings 2½								
Conversion 3½% 1969	Treas'ry 5	1% 2008-12 96 H							
	601 Treasury 5	1% 86-89 921 11% 77-80 801 11% 79-81 791							
Exchequer 5½% 1966 1	o2 👸 Treasury 3	1 <del>1</del> % 77-80 80₹							
runding 5½% 82-84 1	oz Treasury	11 79-81 79#							
	7 Treasury 2	½% 44							
Funding 3½% 99-04	68½ Victory 4%	6 98							

War Loan 31%

604xd

Funding 3% 66-68

917

### Correspondence

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

### **Education for Accountancy**

IR, - Since the publication of the article by Professor V. T. Baxter in your issue of January 20th, and my ibsequent letter (February 3rd issue), I have come realize that much that is discussed and argued bout at society meetings, and elsewhere, is somewhat smoved from the limited aims I had in mind. The onception of university courses in this and that is o doubt an interesting field, but I am seeking someting much more modest.

About 90 per cent of newly-articled clerks know bsolutely nothing, or very little, about even elementry book-keeping. Apart from isolated examples, ich as Wednesbury Education Authority, there is ot even a scheme for giving these young men a rounding in principles up to, at least, the trial alance. Apart from correspondence courses, lectures which are not a substitute for tuition classes) and a ague idea of 'ask your senior', the articled clerk must rope his own way. Such a state of affairs hardly istifies a system of articles.

The absence of any tuition system worth the name perhaps most serious during the first two years of rticles. After a clerk has built up a certain volume of capital' of knowledge, he may find it easier to undertand and accumulate more. During those two years is likely to have a discouraging struggle to comprehend, from shortened versions in text-books and ramming notes, what it is all about. The clerk with to accountant in his family circle deserves special ympathy.

My plea is simply that this 'pick-it-up-as-best-youan' arrangement is not good enough, and a positive cheme of tuition is essential. It ought to have preeded the enlargement of the permitted number of rticled clerks.

If something effectual can be done to teach articled lerks the matters in present syllabuses so that they eally do know them, I shall be content for the resent to leave the subject of 'higher education' and iniversity courses to others.

Yours faithfully, Hatton, Warwicks. J. E. ROWE, F.C.A.

### Changing Price Levels

SIR, - I trust I am not too late in referring back to your issue of October 6th, in which you report the addresses given to the Eighth International Congress n New York.

In particular, I should like to underline, if I may, the address given by Drs. P. F. S. Otten, Chairman of N.V. Philips' Gloeilampenfabrieken, and his statement that, 'In our own enterprise we only consider as profit the surplus remaining after the purchasing

power of the capital invested has been maintained'.

When I was engaged on research into the possibility of integrating standard and current costs in 1950, I discovered they were doing just that even then. In Britain in 1961, one of our more enlightened concerns, John Summers & Sons Ltd, reported in their profit and loss account, under 'Depreciation' calculated by reference to the actual costs of fixed assets, an 'Allocation to fixed assets replacement reserve to take account of higher replacement costs — £1,285,000', and a glance at the balance sheet reveals that depreciation is still being calculated on historical cost, as are the stocks also.

You report Sir Harold Howitt as saying, at the Congress, 'the closer integration of financial, industrial, and political contacts between nations – of which the latest is the European Common Market – must place heavy responsibilities on the accountancy profession'. Does not this mean that we have to begin to re-form our accounting statements to include replacement costs, as is being done in those countries with whom we are probably going to become members of a truly economic European Community? Or are we going to drag our feet until the event is upon us?

Replacement cost accounting is no longer a mere academic exercise, but a vital necessity if we are to be a leading member of that Community, and exercise our proper influence in the economy of the world.

Yours truly,

Mundesley, Norfolk. WM. E. SPRUCE.

### **Acceptance Sampling**

SIR, — Although the statistical theories enunciated by Mr K. A. Sherwood are beyond my ken, his article (October 20th issue) includes a statement which in my opinion is basically incorrect in principle.

He states . . . 'the extent of the test should always be given, e.g. "Test 150 petty cash vouchers at random".'

In case a reader should be led to apply this basis to the vouching of more important payments, I write to suggest that the object of vouching is to verify payments and consequently the instruction should be 'Vouch 150 petty cash payments chosen at random' – otherwise one misses all the items which may not be substantiated, in fact, by vouchers!

Yours faithfully, Pinner, Middx. R. W. EDWARDS, F.C.A.

[Mr Sherwood writes: I fully agree with Mr Edwards that a fuller description of the audit test quoted should have been 'Vouch 150 petty cash payments chosen at random'.

The sample in this instance must, of course, be drawn from the petty cash book and not from the vouchers, which may or may not be complete. For the benefit of students I should perhaps explain that samples are sometimes drawn from documents rather than from the books of account. It can be more important to ensure that all documents have been entered rather than that all entries are supported by authorized documents.]

### THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

### TAXATION AND RESEARCH COMMITTEE

The one hundred and twenty-fourth meeting of the Taxation and Research Committee was held at the Institute on Tuesday, October 23rd, 1962 at 2 p.m. There were present:

Mr S. M. Duncan (in the chair); Messrs F. W. Allaway, G. R. Appleyard, G. L. Aspell, T.D., D.L., D. G. Bee, R. P. Brown, K. P. Chapman, D.S.C., L. H. Clark, P. G. Craven, T.D., W. F. Edwards, N. Cassleton Elliott, R. W. Foad, C. R. P. Goodwin, S. R. Harding, J. S. F. Hill, S. Kitchen, H. P. Lawrence, C. Yates Lloyd, J. W. Margetts, A. G. Martin, B. A. Maynard, G. M. Metcalf, S. A. Middleton, G. P. Morgan-Jones, F. L. Moulding, E. J. Newman, R. D. Pearce, J. Perfect, T. B. Pritchard, A. H. Proud, D. W. Robertson, H. Robinson, C. Romer-Lee, B. G. Rose, E. C. Sayers, H. C. Shaw, C. C. Taylor, J.P., G. Thompson, D. C. Urry, J. G. Vaughan, G. Wadwell and J. A. P. Whinney (forty-two members) with Mr S. P. Wilkins and the Assistant Secretaries to the Committee.

### Address by the President of the Institute

The President of the Institute, Mr P. F. Carpenter, F.C.A., attended the opening of the meeting. In reply to a speech of welcome by the Chairman, the President said:

I am sure that all members of the committee will share my sense of loss on the death of Sir Harold Barton who, as you know, was the first Chairman of the Committee. Sir Harold took an active interest in the affairs of the Institute for very many years and the success of the work of the Taxation and Research Committee owes a great deal to those members who were instrumental in its formation.

As one who served on the main committee and a number of sub-committees for a number of years, it gives me particular pleasure to address you this afternoon.

The Committee has now concluded its twentieth year of office and so it is entering on its 'coming of age' year. Many tributes have been paid to the work of the committee and I should like in particular to refer to a paragraph in the Jenkins Report. You will remember that in paragraph 334,

the Report states:

'Whether the information provided in the accounts is enough to give a true and fair view is to some extent a matter of the opinion of the directors based on the circumstances of a particular company. In the last resort the auditor must decide whether he is prepared to state that in his opinion the accounts give a true and fair view; if all the necessary information is not given the auditor is required to qualify his report accordingly. The Recommendations on Accounting Principles periodically issued by the Institute of Chartered Accountants in England and Wales to their members have already done much to ensure that the standards of accounting are reasonably uniform and constantly rising. These recommendations are based on close and constant study of the relevant problems, which are ever changing, and it is primarily to the initiative of the professional associations that we must look if the general principles of the Act are to be effectively applied in practice.

In the preparation of these recommendations the Committee has always played a most important part.

As most of you know, the Council has had under consideration through its Technical Activities Committee the whole question of the future research policy to be followed

and I feel sure that the work of this Committee and of its various sub-committees will continue to be of the greatest

Like most Presidents I gave a good deal of thought as to what the policy should be during my year of office and I came to the conclusion that with so many matters under consideration the best contribution I could make would be to do all in my power to expedite, and if possible to bring to conclusion, as many as possible of these projects. I need only mention the implementation of the Report on Education and Training (the Parker Report) and the Small Practitioner Inquiry. In a world where events move so rapidly there is always the danger of proposals, however well founded, being overtaken by events and out-dated before they can be fully implemented.

As one who has taken part in and very much enjoyed the debates on the various matters dealt with by the Committee, I appreciate very fully the time which must necessarily elapse before a final draft can be completed, but I would commend to all members of the Committee the desirability of agreeing reasonable target dates and pursuing their

deliberations with those dates in mind.

I have often thought that our many members who were serving with the armed forces must have thought it rather remarkable that in 1942 when London and in fact the whole country was in the front line, that the Council of that time should have established this Committee which has played such an important part in the development of the Institute in the post-war period.

I should like to congratulate Mr Duncan and Mr Shaw on their appointment and to wish you all a very successful

vear.

### Mr J. Cartner, F.C.A.

The Chairman paid tribute to Mr J. Cartner for his services as Chairman during the year 1961-62.

### Membership

The Chairman extended a warm welcome to the following new members of the Committee:

Mr D. G. Bee (Manchester).
Mr K. P. Chapman (Co-opted)
Mr P. G. Craven (Co-opted).
Mr S. R. Harding (Co-opted).
Mr H. P. Lawrence (Bristol).
Mr G. M. Metcalf (South Wales).
Mr B. G. Rose (Birmingham).
Mr G. Thompson (Leicester).
Mr G. Wadwell (East Anglia).
Mr J. A. P. Whinney (Council nominee).

Letters of appreciation for their services are to be sent to the following who have retired from membership of the Committee:

Mr R. D. R. Bateman.
Mr W. R. Carter.
Mr R. A. Chermside.
Mr E. S. Foden.
Mr L. Pells.
Mr J. D. Reekie.
Mr B. D. Shaw.
Mr H. Eden Smith.
Mr D. E. T. Tanfield.
Mr G. H. Yarnell.

#### **Sub-committees**

eports of progress were received in connection with renty-two matters.

### **Future Meetings**

he next meeting of the Committee was fixed for hursday, December 13th, 1962, at 2 p.m., and the

meetings of the Committee in 1963 were provisionally arranged for:

Thursday, February 14th, 1963. Tuesday, April 9th, 1963. Thursday, June 13th, 1963. Tuesday, September 17th, 1963. Thursday, October 10th, 1963. Thursday, December 12th, 1963.

### ACCOUNTANTS' VITAL ROLE IN THE COMMON MARKET

### VICE-PRESIDENT'S VIEWS AT HULL DINNER

hartered accountants will have a vital role to play if itain joins the European Common Market, said r R. P. Winter, c.B.E., M.C., T.D., D.L., F.C.A., Vice-esident of The Institute of Chartered Accountants England and Wales, at the annual dinner of the ull, East Yorkshire and Lincolnshire Society of lartered Accountants, held in Hull on October 19th. Chartered accountants would have a greater responsility than ever to industry and commerce if Britain med the Six, he said. It would lead to much keener mpetition and much more integration with business Europe. He felt that accountants must help their ents by giving them guidance on management and lance and helping them to achieve increased productity.

### A Common Standard

he ease of travel, Mr Winter said, was bringing counes closer together and, with such a flow of capital d business between them, it was most important at the different bodies of accountants should have an derstanding of each others' methods and that they ould have a common standard of accounts.

The profession had got to try to get across to industry d commerce that accountancy was only one part of eir service, and they could offer quite a lot of help the smaller firms, which did not have accountants their staff. 'If we can do that, we will convince our ents that we are of some use, and not something posed on them by the Companies Act or the Inland venue.'

Mr Winter paid tribute to Mr C. M. Strachan, 3.E., F.C.A., President of the Chartered Accountants udents' Society of Kingston upon Hull, for the rk he had done for the Society and for the profession, ring the ten years he was a member of the Council, fore his retirement. He also paid tribute to Mr Alan acIver, C.B.E., M.C., B.A., who recently retired after enty-seven years' devoted service to the Institute, st as Deputy Secretary and Assistant Secretary and

en as Secretary.

Referring to the Institute's 'small practitioners' nuiry, Mr Winter said that the Council had received tremendous amount of information from district lieties and they hoped that when the recommendans were placed before them, they would be of some lp to the small practitioner.

Judge Norman Harper, Hull County Court Judge, o proposed the toast of the Institute, said account-

ants could face the advent of the Common Market with confidence having had what he described as 'an immense amalgamation of the two main branches of accountancy'. 'You seem to have had a good deal more foresight, not only than the Government, but also more than two of the political parties,' he added.

#### The Guests

Mr A. Macdonald, F.C.A., President of the Society, proposing the toast of 'The Guests', said that in the first half of the last century accountants were not popular; they were 'clothed in a sense of calamity'. Now they were an essential part of business and British accountants were an example to the world.

Replying to the toast, Mr Ronald Dufton, F.A.L.P.A., President of the Hull Institute of Estate Agents and Auctioneers, paid tribute to the help that accountants gave to members of his Institute. He had, he said, spent some time as a young man in an accountant's office and therefore had some knowledge of their profession and difficulties. He was grateful to them for simplifying the lives of estate agents and auctioneers.

Among the guests present were:

Messrs C. V. Best, F.C.A. (Chairman, London and District Society of Chartered Accountants); K. A. Buxton, F.C.A. (President, Nottingham Society of Chartered Accountants); Capt. J. E. Cooper, O.B.E. (Master Warden of the Corporation of the Hull Trinity House); Messrs C. E. Copley, B.S.C., F.C.A. (President, Sheffield and District Society of Chartered Accountants); J. R. Dufton, F.A.L.P.A. (President, Hull Institute of Estate Agents and Auctioneers); C. A. Evan-Jones, M.B.E. (An Under-Secretary, Institute of Chartered Accountants in England and Wales); T. W. Hibbert, F.C.A. (President, Leeds, Bradford and District Society of Chartered Accountants); C. G. Heselton, F.C.A. (Vice-President, Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants).

Messis A. D. Langridge, F.C.A. (President, South Eastern Society of Chartered Accountants); H. M. Lepper, F.C.A. (President, Leicestershire and Northamptonshire Society of Chartered Accountants); S. Morris, F.C.A. (President, Liverpool Society of Chartered Accountants); G. W. Murphy, J.P., B.A., F.C.A. (President, Manchester Society of Chartered Accountants); A. K. Sheppard, F.C.A. (President, East Anglian Society of Chartered Accountants); R. G. Slack, M.A., F.C.A. (Member of Council, The Institute of Chartered Accountants in England and Wales); D. E. T. Tanfield, F.C.A. (President, Birmingham and District Society of Chartered Accountants); G. R. Watson, F.C.A. (Chairman, Grimsby Branch of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants).

### Importance of a Strong Professional Body

The need for a strong professional body and the purposes it could fulfil were stressed by Mr M. V. Argyle, M.C., Q.C., Recorder of Northampton, at the annual dinner of the Leicestershire and Northamptonshire Society of Chartered Accountants at Northampton on October 22nd.

Mr Argyle, who was proposing the toast of 'The Institute of Chartered Accountants in England and Wales', said that he sometimes heard from accountants suggestions that they had competition to face from the solicitors' branch of his own profession and from the banks. There was something, no doubt, in that point of view, but he would not have thought that there was any great threat to the accountancy profession from either of those directions. His father was a solicitor in a fairly substantial way, and he thought it fair to say that twenty-five years ago a great deal of work now done by accountants was done by solicitors.

Nowadays, although they did a good deal of tax work, most firms of solicitors were not equipped with staff or facilities for doing most of the work which accountants had either taken over, or which had appeared in the past quarter of a century.

Again, as far as the banks were concerned, although they had done first-class work in certain directions, work which they would no doubt retain, he would not have thought that this was any substantial threat to the accountants' profession.

### **Problem of Rising Costs**

What I want to put before you', he continued, 'is the desirability and the tremendous need you have for a very strong professional association. The threat, I would say, to any profession comes principally from its own ranks.'

'This is a familiar situation to me as a barrister. Most of us are competitors, but it is the function of a strong professional body so to organize the remuneration and affairs of its members that, while they remain rivals, they are in basic agreement over the major influences which affect them.

agreement over the major influences which affect them.
'In the past few years in my profession at the Bar, the Bar Council, and the Benchers of the four Inns, with great difficulty and great patience, have succeeded in negotiating an increase in remuneration which was certainly justified by increases in costs, overheads, staff and everything else. It was difficult because we all compete with each other.

'I have been told by a number of accountants, from small firms on the whole, that costs in the past few years have risen in a substantial way. It may be that your professional body will be able to negotiate, in the same way as the legal bodies, an increase in remuneration which will meet the requirements of you all.'

On preserving their public image, Mr Argyle said that accountants had an advantage because at present theirs was good. In the cases of the law, the Church and the medical profession it was far below what it deserved to be.

'Your profession, in the past twenty-five years, has made one of the greatest advances – I would even call it a breakthrough – of any profession in this country.

'Accountants are on the boards of most great businesses.

They are sought after by the Church, the State, industry, public service and private service. They are in tremendous demand.

'I would suggest to you with great respect: take great care through your leaders that that public image does not get at all blurred or distorted.'

### **Institute Activities**

Replying to the toast, Mr P. F. Carpenter, F.C.A., President of the Institute, expressed appreciation of the work of the district societies.

Referring to various activities of the Institute, he said that since the publication of the Parker Report on Education and Training for the Profession, seven new universities had been founded. He suggested that within the next five years it would probably be necessary to make some fairly drastic revisions of the report's recommendations.

"The future of the profession lies a lot with the quality of recruits,' declared Mr Carpenter. 'It is obvious that with the expansion of our educational service the brighter boys and girls will go to the universities, and we shall have to arrange our plans so that we receive our fair proportior of them.'

Mr Carpenter said that the Institute's Taxation and Research Committee had done great work of considerable value to the profession, and they were now considering whether that work could be extended, and the form in which it might be developed.

"Then we have had our investigation into the problem of the small practitioner,' he went on. 'I am a smallist practitioner myself. We are very close to the problems o the small practitioner.

'We do not want to run your businesses for you, bu nevertheless we are inquiring into the problems which confront you. We are looking into the questions of staffing and remuneration, and we hope that we shall be able to render some practical help to you.

'I think that in the long run to make a success of you practice you must keep up to date and be efficient. We recommend those members who can afford the time to go to our summer courses at Cambridge and Oxford.

'We have put a great deal of emphasis in recent month on the work of the provincial accountant. We are encourag ing our members to have a rather more forward lookrather, to be financial advisers in addition to being auditors

'The absolute independence of the auditor is essential but he should be encouraged to be forward-looking and no be afraid to act as a financial adviser to the company h serves.'

### The Guests

The toast of "The Guests' was proposed by Mr H Murray Lepper, F.C.A., A.C.I.S., President of the Leicestershire and Northamptonshire Society. The company to which he referred, numbering some two hundred and seventy members and guests, included nine presidents of district societies.

Replying on behalf of the guests, the Mayor o Northampton, Alderman E. F. Tompkins, paid tribut to Mr Murray Lepper's work for further education as a member of the commerce advisory committee a Northampton College of Technology.

## Independence of Mind Needed in Modern Society

### LEEDS & BRADFORD CHARTERED ACCOUNTANTS' DINNER

A level of sturdy individualism was needed more and nore in modern society and that independence of mind vas bred in The Institute of Chartered Accountants n England and Wales, said the Earl of Limerick, i.B.E., C.H., K.C.B., D.S.O., T.D., speaking at the annual linner of The Leeds, Bradford and District Society of Chartered Accountants at the Queen's Hotel, Leeds, in October 26th.

Lord Limerick, who was proposing the toast of he Institute, said that throughout a long life of paid nd unpaid jobs and of seeking help from experts of nany sorts – engineers, scientists, and the professions – e had not only had that help but a great deal of kindess thrown in. Among his expert friends had inevitably een a number of accountants.

'An accountant, it is said, can find a solution for very difficulty, whereas the cynic remarks of the aligned Civil Service that it can produce a difficulty or every solution', said Lord Limerick, amidst aughter. He went on:

'I have found 95 per cent of accountants admirable and 1e rest intolerable (*Laughter*). Now this is a very high roportion of passes to failures in any profession. Luckily can put my son, who qualified some time back, amongst 1e 95 per cent. As for the 5 per cent, they fail through ver-regimentation of mind. They seldom see the new idea, and when they do they hate it.'

Lord Limerick said that the training for accountancy as a safeguard against one of the social dilemmas of iodern times, the standardization of men for material ficiency.

"The increase in specialization in a highly organized sciety makes us frighteningly inter-dependent.

'Nowadays we are schooled to a pattern, we are specialized and popped into little places in the standardized mass achinery of central or local government, big business or ade associations. So it needs quite an effort to retain our ower of objective and individual thought and reaction. We seem in danger of becoming asses loaded with and pre-inditioned by the eleven-plus, the wireless, the television at the picture press.'

#### Good Public Image

esponding to the toast, Mr Percy F. Carpenter, c.a., President of the Institute, said that one of the eat pleasures of being President was the opportunity visit district societies. It was an opportunity which I presidents treasured. He said the visit also gave him e opportunity of thanking the officers and members the local committee for all the work they did on shalf of the Institute.

The public image of the chartered accountant, intinued Mr Carpenter, stood as high in public teem today as it ever had. One of the best contribuns the Council could make for the general welfare its 36,000 members was to maintain and raise that the image.

He said that recently he had had the very great easure of attending a conference of French accountts. He found that the reputation of the English

Institute was very high indeed, as indeed it was in the United States as he had noted at the International Congress there. 'One of the themes of the Congress in New York', he added, 'was the opportunity we all have in our profession of helping our fellow men, not only from a professional point of view but in the ordinary way of life. I would commend that view to you.'

Referring to the Council's work, the President said: 'We are concerned with the problems of the Common Market, the decimalization of currency and so on. Domestically we are preparing to implement the recommendations of our committee on educational training and in addition we have started an investigation into what is known as the small practitioner problem. In this inquiry we hope we shall be able to give considerable assistance to you from a fact-finding survey which should help you in staffing, remuneration and basis of fees.'

#### **Textile Problems**

Proposing 'Our Guests', Mr T. W. Hibbert, T.D., F.C.A., President of the Leeds, Bradford and District Society, said:

"This is a very industrial area and we produce in the East and West Ridings approximately £600 million each year, or roughly 10 per cent of the gross national product.

'We pride ourselves on being industrious and thrifty, we continue to develop our overseas markets and the struggle to increase productivity is almost second nature to us. So far as the wool and clothing industries are concerned, we try to make ourselves more and more efficient.'

Mr Hibbert said the National Productivity Year would start in November but 'the increase in productivity does not entirely depend on our own efforts. The policy of the Government has a very important bearing on our plan for expansion'.

"To take one example, there is the difficult problem of trade agreements with foreign countries. We have tried to give Lord Limerick some idea of the crippling effects which the proposed Japanese Treaty could have on the wool and clothing industries, on the prosperity of which depends the livelihood of many people in the profession in this area.'

He said that the present terms of the proposed agreement would allow free entry of Japanese textile products into this country. Mr G. E. Birkenshaw, Chairman of the Wool Textile Delegation, was doing magnificent work on behalf of the industry. But, said Mr Hibbert, he must feel at times completely frustrated in his efforts to impress upon the Government the seriousness of the situation whereby this country could be flooded by cheap, subsidized Japanese imports before the Government could take any action to prevent it. 'We are prepared to stand up against the lower Japanese wage rates but we can't compete against their export subsidies and other unfair practices', he added.

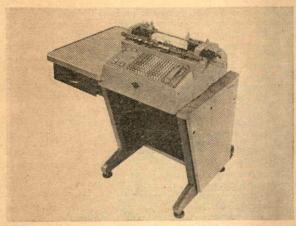
The toast was responded to by the Lord Mayor of Leeds, Alderman Harold Watson, and Mr R. G. Summers, chairman of the Bradford and District Centre of the Institute of Bankers.

A monthly feature designed to keep readers whether in practice or in commerce - abreast of the latest developments in the field of office equipment.

### Fast, Low-cost Accounting

NEW, high-speed machine in the well-known National series has many of the features of the Class 31 and 32 models but costs well under £1,000. Known somewhat ponderously as the High-speed Ledger Machine, it has a full numerical keyboard, a number of keys for abbreviated alphabetical description (a choice is available to meet individual needs) and four registers.

Like other machines manufactured by this company, the new model is controlled by a programme bar and gives instant proof that previous balances have been



N.C.R. High-speed Ledger Machine

brought forward correctly and rightly identified as debit or credit. This check is applied before an entry is made. There is a choice of two keyboard layouts, one of which allows the entry of two dates. Both dates can be pre-set before posting begins, or one can be varied from the keyboard - an essential facility when the date of the original as well as that of the posting must be entered.

Typical applications are sales and purchase ledger,

stock records, P.A.Y.E. and hire-purchase work.

Price, £849. An alternative model with slightly different keyboard arrangement costs £877.

From the same maker comes a new Automatic Line Finder attachment which fits the new machine, and the 31, 32, 33 and Compu-Tronic models. Designed for 26 in. carriages, it accepts forms up to 18 in. wide and, by assuring perfect alignment of entries, improves the appearance and legibility of records while procuring maximum form usage.

The attachment gives controlled spacing of six lines to the inch. This result it achieves by sensing indentations at the right-hand edge of the form. The first indentation is pre-punched; subsequent ones are made automatically with each entry. Double-sided forms printed head to head can be accommodated. Using the attachment, the operator merely inserts the leading edge of the form between two guides. The machine positions the document and, after the entry is completed, ejects it at a speed varying from 16 to

### New Offi

20 in. per second, depending on the form width.

The attachment can be fixed to or removed from the carriage in a few seconds and is immediately adjustable for varying widths. Other forms can be inserted and straightened manually beside the automatically aligned

Automatic line spacers for 20 and 16 in. carriages will be available later, the makers say.

Price, on application.

National Cash Register Co Ltd, 206-216 Marylebone Road, London NW1.

### **Inexpensive Automation**

HE cost of automated cheque handling has been sharply reduced by a new machine in the Protectograph range. Known as the Cheque Disburser, this device writes, dates and signs the documents in a single operation. Its price is only £345 - well below half the cost of similar all-purpose machines previously offered by this distributor.

Security is not sacrificed in this low-cost model. The amount figures and the date are entered in indelible ink and shredded into the paper, making alteration virtually impossible. The signature plate, which can contain one or two names, is locked into a compartment to which access is gained only with two keys, each of which may be kept by a different person. The passage of every cheque through the machine is recorded on a non-resettable counter.

The machine is very simple to use. The operator sets the amount figures on a keyboard like that of an adding machine. He then presses a button which causes the machine to sign, write and date the cheque simultaneously, then eject it. Model 78-7 writes amounts up to £999 19s 11d with shillings and pence in full. The larger 78-6 goes up to £999,999 but without shillings

Prices: Model 78-6, £345. Model 78-7, £340. Halsby & Co, Ltd, 52 Dean Street, Shaftesbury Avenue, London W1.



Protectograph Cheque Disburser

### uipment

### **Dual-purpose Intercom**

HOWN in prototype at the recent Business Efficiency Exhibition was an intercom system ich combines the functions of telephone amplifier. is based on the well-known *Fonadek* device on to ich any standard telephone handset may be placed give two-way speech amplification.

The amplifier is linked by one thin flex to a subit which is, of course, situated at some distant int. A push-button allows the user of the *Fonadek* 

switch over to intercom.

Price complete, £37 10s including purchase tax. Fonadek (Branson) Ltd, Harborne, Birmingham, 17.

### **Fast Copying Service**

HEN economic or other reasons preclude owning one's own photocopier, common sense gests making use of a service organization. Untunately, however, there may be long delays before reproductions are available.

A new Birmingham company (offshoot of a similar I highly successful venture in London) gives over-counter service. Single-sheet documents or pages and into books, periodicals or legal briefs are copied the dry Xerographic process within a few seconds. e process uses no negatives, so the confidential ure of originals is preserved: and customers who he no one at all to handle the original may do their neopying – a childishly simple procedure.

Maximum copy size is 9 in. by 14 in., but larger ruments can be reproduced by copying in sections I piecing the reproductions. In no case is the original tilated, nor does it ever go into the machine. Copies be made on card, gummed paper or translucent

ets as well as on to standard paper.

Prices, 1s 3d per 9×14 in reproduction (e.g. one ginal of this size, two facing pages of a smallish k or a portion of a plan of larger overall size).

Central Xerocopying (Birmingham), 212 Corporation eet, Birmingham 4.

### Steel Furniture

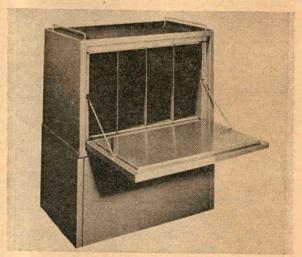
NE company which is already looking toward the Common Market is G. A. Harvey Ltd. A new ge of steel office furniture brought out by this npany contains drawers made to fit the A4 paper the international standard used for some time the Continent and now being gradually adopted

The Milhall A4 range includes a four-drawer filing oinet, a double-pedestal junior executive desk and a gle-pedestal typist desk with off-set typewriter lf. All are finished in light grey and the desks have s covered in black linoleum.

Prices on application.
G. A. Harvey (London) Ltd, Greenwich Metal rks, London SE7.

### Fire-resistant Deed Cabinet

Pasically the new Agdon fire-resistant deed cabinet comprises a plinth upon which is set a unit containing four vertical compartments and having a drop-front lid which acts as a table when open. But it is designed on the unit principle, so that the two handles on top of the cabinet act as locating points when similar units are stacked on top. There is thus scope for constant enlargement of capacity without occupying extra floor space.



Agdon Fire-resistant Deed Cabinet

The double metal skin of the cabinet is filled with fire-resistant material which, it is claimed, can with-stand temperatures of up to 2,000°F. And although not intended primarily to afford protection against theft, each cabinet has a high-quality lock which should effectively deter pilferers.

Outside, the cabinet is  $28\frac{1}{2}$  in. wide, 18 in. back-to-front and  $19\frac{1}{2}$  in. high. Each interior compartment is 6 in. wide,  $14\frac{1}{2}$  in. back-to-front and  $13\frac{3}{4}$  in. high. Cabinet weight is 117 lb. The plinth weighs 27 lb.

Price, Plinth and one cabinet, £49 plus 10 per cent purchase tax.

Agdon Steel Equipment Ltd, 15-19 Agdon Street, London EC1.

### Norwegian Miniature Office

DESIGNED for installation in the home, the Norwegian Miniature Office should appeal to the busy man or woman whose working hours do not end when the office closes in the evening. It consists of three compartments, the two side ones, divided by movable shelves, swinging forward to form a three-sided room, giving ample space for business papers, files, reference books and ledgers, and a typewriter. An adjustable lamp illuminates the writing area. When not in use the sides fold across the centre to make a closed cabinet with a safety lock. This measures  $45\frac{1}{2}$  in.  $\times$   $21\frac{1}{4}$  in.  $\times$   $32\frac{1}{4}$  in. When open the width is  $64\frac{1}{2}$  in so that even a small room will accommodate the 'office'.

Prices, Mahogany and Light Oak £68, Teak £75. Badenia Calculators Ltd, Lion House, Red Lion Street, London WC1.

### Notes and Notices

#### PROFESSIONAL NOTICES

Messrs Barton, Mayhew & Co and Turquand, Youngs & Co, announce that they have established offices in Switzerland to operate under the style of Barton Mayhew & Turquand Youngs A.G., from Dreikönigstrasse 7, Zürich 2, and Genfergasse 5, Berne. Mr John Lucas, a.c.a., will be resident manager and the practice will be conducted in association with Schweizerische Revisionsgesellschaft A.G.

Messrs Cassleton Elliott & Co, Chartered Accountants, of 4 and 6 Throgmorton Avenue, London EC2, announce that as from November 1st, 1962, they have admitted into partnership Mr Christopher Collett, B.A., A.C.A., who has been a member of their staff for some years.

Messrs Chalmers, Wade, Impey, Cudworth & Co, announce that Mr James Heaford, f.C.A., and Mr Dennis William Eckersley, b.com., a.C.A., have joined them as parters in their Manchester firm from November 1st, 1962. Mr Heaford and Mr Eckersley will continue as partners in Messrs Edward Myers, Clark, Eckersley & Co. On the same date Mr Robert Michael Dowler, f.C.A., retired from the firm to take up an appointment in Australia.

Messrs Cohen, Arnold & Co, Chartered Accountants, of Ling House, Dominion Street, London EC2 and 8 City Road, London EC1, announce that as from October 12th, 1962, they have admitted Mr Arnold J. Cohen, A.C.A., and Mr Michael Barnett, A.C.A., to the partnership. The style of the firm remains unchanged.

Messrs Cooper & Cooper, Chartered Accountants, announce that their sole London address is now Oxford House, 15 Crosswall, London EC3. Telephone: Royal 9842-5 and 6210.

Messrs Harold Everett, Wreford & Co, Chartered Accountants, of Harford House, 103 Gt Portland Street, London W1, announce that Mr A. VINOCOURT, A.C.A., who has been a senior member of their staff for some time, has now been admitted into partnership. The name of the firm will remain unchanged.

MESSRS TURQUAND, YOUNGS & Co announce that Mr E. TURNER GREEN, F.C.A., has joined the partnership as from November 1st, 1962. Mr TURNER GREEN has been associated with the firm for many years and, from 1958, was senior partner in the Ceylon firm.

#### Appointments

Mr T. H. Benn, F.C.A., has been appointed sales director of Scottish Agricultural Industries Ltd.

Mr Denis Craft, F.C.A., has been appointed secretary of Charrington, Gardner, Locket & Co Ltd, in place of Mr L. H. Hatcher, F.C.A., who remains a member of the board.

Mr J. W. Finn, F.C.A., has been appointed a director of Thomas De La Rue International.

Mr H. Haworth Ford, F.C.A., has been appointed to the board of Taylor Bros & Co Ltd of Manchester.

Mr Noel N. Lunt, F.C.A., has been appointed a director of Scottish Cables Ltd (B.I.C.C. group).

Mr A. E. Queening, F.C.A., chief accountant of Vokes Group Ltd, has been appointed secretary of the group and of its United Kingdom subsidiaries and associated company, succeeding Mr J. Phillips, O.B.E., F.C.A., who has retired from office, but remains on the board of the parent company. Mr Queening also joins the board of Vokes Group Ltd.

### **B.O.A.C. INQUIRY**

It was announced this week that the Minister of Aviation, Mr Julian Amery, has instructed a firm of chartered accountants to investigate the financial affairs of the British Overseas Airways Corporation. This follows the recent report that B.O.A.C. and its associated companies had lost over £14 million in the year ended March 31st, 1962. This has brought the accumulated deficit up to £64½ million, on which interest has to be paid to the Government. B.O.A.C.'s chairman, Sir Matthew Slattery has suggested that the deficit should be written off, thus relieving the Corporation of the interest burden.

Although not officially stated – as the inquiry is regarded as a private one instituted by the Minister with the full agreement of B.O.A.C. – it is understood that the investigating accountants are Messrs

Peat, Marwick, Mitchell & Co.

### LOCAL LOANS FUND

The Treasury have announced that as from October 20th, 1962, the rates of interest charged on loans advanced by the Public Works Loan Board to local authorities are as follows:

	Per	cent
Loans for not more than five years	5 <del>8</del>	$(6\frac{1}{4})$
Loans for more than five years but not more than fifteen years	5 <del>7</del>	(61/2)
more than thirty years	6 <del>1</del> 61	(6 <sup>3</sup> / <sub>1</sub> )

The former rates of interest are shown in brackets; they have been in force since October 6th, 1962. The rates of interest on existing loans are unaffected.

### LOCAL GOVERNMENT FINANCE STATISTICS

The cost of running local authority rate fund services, other than trading services, in the financial year 1960-61 was £1,795 million – an increase of £134½ million compared with the previous year. These figures are among details, published last week, of the income and expenditure of English and Welsh local authorities for the financial year 1960-61 presented by the Minister of Housing and Local Government.

Other changes noted in the statistics include ar increase of £24\frac{3}{4}\$ million in payments made by councitenants and those making use of other rate fund services. The income from rates rose by £46\frac{3}{4}\$ million to £696\frac{3}{4}\$ million. Government grants, apart from capital grants, rose by £50\frac{1}{4}\$ million to £755 million and expenditure

<sup>1</sup>Local Government Financial Statistics, England and Wales, 1960-61. H.M.S.O. Price 1s 9d net.

of the trading services again increased to £234 million £222\frac{1}{2} million in 1959-60).

Capital expenditure, at £577 million, was higher han in 1959-60 by nearly £45½ million. This expendiure includes nearly £83½ million for advances on nortgage to private individuals for house purchase. Debt, after deducting sinking funds and sums repayable for nationalized services, amounted at the end of he year to over £5,9894 million - an increase in the rear of some £361 million. The remuneration of local government officers and employees cost £9711 million - an increase of over £72 million.

#### ASSISTANT OFFICIAL RECEIVER APPOINTMENTS

The Board of Trade have announced that as from October 22nd, 1962, Mr Tom Wilks has been appointed in Assistant Official Receiver for the Bankruptcy District of the County Courts of Liverpool, Bangor, Birkenhead, Chester, Portmadoc and Blaenau Ffestiniog, Narrington, Wigan and Wrexham, and that Mr Henry Robertson is to be an Assistant Official Receiver for the 3ankruptcy District of the County Courts of Nottingiam, Boston, Burton-on-Trent, Derby, Leicester, Lincoln and Horncastle.

They also announce that as from October 29th, 962, Mr John Frederick Hirst is to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Birmingham, Coventry, Dudley, Iereford, Kidderminster, Leominster, Stourbridge, Valsall, Warwick, West Bromwich, Wolverhampton nd Worcester, and that Mr John Smith is to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Norwich, Great Yarmouth and King's Lynn and the Bankruptcy District of the County Courts of Ipswich, Bury St Edmunds and Colchester.

As from November 1st, 1962, Mr Geoffrey Roy Iaddrell has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Southampton, Bournemouth, Newport and lyde (I.W.), Portsmouth and Winchester and the Sankruptcy District of the County Courts of Salisbury,

Dorchester and Yeovil.

### SEA-GOING BANK

'he National Commercial Bank of Scotland have tarted a novel banking service for the benefit of island armers and others in the North Isles of Orkney. A notor cruiser plies regularly between Kirkwall and the utlying islands - thus saving farmers, tradespeople nd fishermen from having to take the steamer to the )rkney mainland for banking facilities. Named the Itter Bank, it has been fitted up much like a bank nterior - and customers sit down to complete their ransactions.

### THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES Members' Library

he second cumulative supplement to the August 961 Short List of books in the library of the Institute as now been issued. Copies, which contain additions August 1962 will be sent to members by the ibrarian, free and post free on receipt of an addressed ιbel.

### THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

#### Members' Dinner

The Institute of Cost and Works Accountants held a dinner in Fishmongers' Hall, London, on October 25th. The President, Mr W. Bishop, c.a., f.c.w.a., was in the chair, and the guests included:

The Very Reverend E. S. Abbott (Dean of Westminster); Messrs H. Burke (President, The Institute of Production Riesis II. Bulke (President, The Institute of Production Engineers); V. R. Chennell, F.A.C.C.A. (Vice-President, The Association of Certified and Corporate Accountants); N. Doodson (President, The Institute of Municipal Treasurers and Accountants); Professor Ronald S. Edwards (Chairman, The Electricity Council); Mrs Eileen Hoare, O.B.E. (Deputy Chairman of the London County Council); Sir Harold Howitt, G.B.E., D.S.O., M.C., D.L., F.C.A. (a Past-President, The Institute of Chartered Accountants in England and Wales); Sir Norman Kipping, K.B.E., J.P. (Director-General, The Federation of British Industries); Messrs M. J. Lamb (Deputy High Commissioner for Rhodesia and Nyasaland); Thomas Lister (a Past-President, The Institute of Chartered Accountants of Scotland); Sir Denys Lowson, Bt (President, The Chartered Institute of Secretaries).

Colonel E. R. Mayer, T.D., D.L. (President, The National Association of British Manufacturers); Mr Cecil Mead (Chairman, The British Institute of Management); Councillor L. Pearl (Deputy Mayor of St Marylebone); Messrs S. J. Pears, F.C.A. (a Past-President, The Institute of Chartered Accountants in England and Wales); John S. Scott (The Prime Warden, The Fishmongers' Company); C. L. Accountants in England and Wates); John S. Scott (The Prime Warden, The Fishmongers' Company); C. L. Stephenson; T. H. Summerson, D.L., J.P. (President, The Association of British Chambers of Commerce); K. A. Usherwood, F.I.A. (President, The Institute of Actuaries); The Hon. A. J. Francois Viljoen (Minister for the Republic of South Africa); Messrs Robert P. Winter, C.B.E., M.C., T.D. Ville President, The Institute of Chapter of Accountants in (Vice-President, The Institute of Chartered Accountants in England and Wales); H. Woolley, C.B.E. (President, The National Farmers' Union).

The toast of 'The Institute of Cost and Works Accountants' was proposed by Sir Norman Kipping, K.B.E., J.P., Director-General, The Federation of British Industries, and Mr Bishop replied.

Mr D. E. Edmonds, F.C.W.A., a member of the Council of the Institute, proposed the toast of 'The Guests' and Col E. R. Mayer, T.D., D.L., President, The National Association of British Manufacturers, responded.

#### REGIONAL COST CONFERENCE

A Regional Cost Conference was held last Saturday by The Institute of Cost and Works Accountants at the Town Hall, Peterborough. The conference was opened by Mr C. E. Power, F.C.A., F.C.W.A., a Vice-President of the Institute, and papers were presented on 'Recent developments in farm costing', by Mr Ford Sturrock, B.SC., M.A., director, Farm Economics Branch, University of Cambridge, and 'Cost accounting in the food industry', by Mr L. E. Hodge, F.C.W.A., accountant, Batchelors Foods Ltd.

In his paper Mr Sturrock surveyed the development of farm cost accounting and emphasized the similarity of the problems faced by the farmer to those faced by the industrialist. High output alone, he said, was not a sufficient criterion of success and he went on to discuss the techniques designed to produce a balanced output of products yielding the maximum return on capital employed. He showed how marginal costing and linear programming can be used by the farmer to decide the best use of resources.

Using pea preserving as an example, Mr Hodge in

his paper, illustrated the problems involved in this very seasonal and competitive industry. The accountant, he said, could only give the greatest assistance to management if he is fully aware of all the circumstances and complications, and many larger companies were begining to appreciate the advantage of having an accountant with wide experience as part of their management team.

### LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS Luncheon Meeting

A luncheon meeting of the London and District Society of Chartered Accountants will be held at the Connaught Rooms, Great Queen Street, London WC2, on Wednesday, November 28th, at 12.30 for 1 p.m., when Baroness Burton of Coventry will be the guest speaker.

Members may bring guests and ladies are invited. Tickets at £1 2s 6d are available from the secretary, Mr J. W. G. Cocke, T.D., M.A., F.C.A., 2 Norfolk Street, London WC2.

### SOUTH-WEST LONDON DISCUSSION GROUP

The next meeting of the South-west London Chartered Accountants' Discussion Group will be held at the Kingston Hotel, Wood Street, Kingston upon Thames at 6.45 for 7 p.m. on Monday, November 5th. The discussions will be opened by Mr S. Every, M.A., F.C.A., and the subject will be 'Further aspects of the Jenkins Committee Report'.

### BIRMINGHAM AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS Coventry Area Branch

The first meeting in the 1962-63 session of the Coventry Area Branch of the Birmingham and District Society of Chartered Accountants was held on October 15th, when Mr Rolf Hellberg, F.R.I.B.A., gave an address on 'Modern trends in office design'. On Thursday, November 22nd, the Branch's annual banquet will be held at the Hotel Leofric, Coventry. Other meetings have been arranged as follows:

December 17th: Luncheon meeting at the Chance Hotel, Coventry: 'Reminiscences of a Tax Inspector', by Mr W. O. Reid, H.M. Inspector of Taxes.

January 18th, 1963: Dinner meeting at Saxon Mill, Gay's Cliffe, Warwick: 'Education for the profession', by Dr A. H. Marshall, C.B.E., B.SC. (ECON.), F.S.A.A.

February 18th: Luncheon meeting at the Chance Hotel, Coventry: 'Decimalization of the currency', by Mr H. B. Jackson, Barclays Bank Ltd.

March 22nd: Dinner meeting at Saxon Mill, Gay's Cliffe, Warwick: 'Limitation of surtax and estate duty liabilities by means of settlements', by Mr G. B. Graham, Barrister-at-law.

The honorary secretary of the Branch is Mr K. Sankey, F.C.A., 13 Eaton Road, Coventry.

### ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting of the Accountants' Christian Fellowship for Bible reading and prayer will be held at 1 p.m. on Monday next, November 5th, in the vestry of St Mary Woolnoth Church, King William Street, London EC3. The scripture for reading and thought will be Hebrews, Chapter 12, verses 1 and 2.

### SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS

#### Students' Residential Course

The thirteenth students' residential course arranged by the South Eastern Society of Chartered Accountants was held at the Royal Pavilion, Brighton, from September 24th to 28th (Intermediate course), and October 1st to 5th (Final course). There was an attendance of 160 students, mainly from students' societies within the Society's area, which serves Kent, Sussex, Hampshire and parts of Wiltshire and Dorset. A number of London students were also welcomed.

The course was introduced by Mr A. D. Langridge, F.C.A., President of the Society, who presided at the dinners. Mr J. A. Jackson, F.C.A., and Mr John Godfrey, M.A., F.C.A., members of the Council of the Institute, were the principal speakers at the Final and Intermediate course dinners respectively. The Society also welcomed students' society officers, and principals of articled clerks, to the dinners and other functions.

It is felt by the organizers that considerably more students will wish to attend future courses if the educational and social success of this one can be maintained.

### THE INSTITUTE OF INTERNAL AUDITORS Audit Assistants' Lecture Course

The London Chapter of The Institute of Internal Auditors is holding a course on internal auditing for members' assistants during November and December. There will be four discussion meetings and a talk on, and demonstration of, electronic computers. Details are as follows:

November 5th: 'The impact of electronic data processing on audit techniques', by Mr D. W. Hooper, M.A., F.C.A. (Past President of the British Computer Society, chief organizing accountant, National Coal Board).

chief organizing accountant, National Coal Board).

November 12th: "The internal auditor – friend or foe', by
Mr J. H. Protheroe, A.A.C.C.A., A.I.M.T.A. (The British
Oxygen Co Ltd).

Oxygen Co Ltd).

November 19th: 'Statistical sampling in auditing', by Mr P. W. Hoskin, A.C.W.A., F.C.A. (A.E.I. Hotpoint Ltd).

November 26th: 'Dutch Parliament', (Questions submitted by those attending and discussed by all present).

December 3rd: Visit to I.B.M. Organization: Talk on, and demonstration of, Unit record equipment.

Further information regarding the course may be obtained from the secretary of the Chapter, Mr H. G. Cox, The Monotype Corporation Ltd, Salfords, Redhill, Surrey.

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### Birmingham Chapter

The next meeting of the Birmingham Chapter of The Institute of Internal Auditors will be held at the Chartered Auctioneers' and Estate Agents' Institute, Regent House, St Philip's Place, Colmore Row, Birmingham 3, next Thursday at 6.30 p.m., when Mr L. E. Johnson, of Urwick Orr & Partners Ltd, will speak on 'Statistical sampling in inspection of quality control'.

### INSTITUTE OF ACTUARIES Retirement of Secretary

The Council of the Institute of Actuaries has announced that, for reasons of health, Mr A. D. Dale, F.C.I.S., relinquished the secretaryship of the Institute on October 31st, 1962, and is retiring. Mr Dale entered the Institute's service on August 1st, 1929, and succeeded Mr S. H. Jarvis on October 1st, 1939, as the Institute's chief executive officer.

Mr N. J. Page, M.C., F.C.I.S., Joint Secretary of the Institute, has been appointed Secretary in succession to Mr Dale.

### THE CHARTERED AUCTIONEERS' AND ESTATE **AGENTS' INSTITUTE**

### Thesis Competition

An open competition for original papers comprising between 5,000 and 7,000 words on the subject 'Financing professional partnerships of the future' is being arranged by the Council of the Chartered Auctioneers' and Estate Agents' Institute for the Guy Bigwood Award, 1963. A prize of fifty guineas will be awarded for the best paper submitted.

Papers should be constructive and practical in their approach to the subject and regard will be given by the adjudicators to the adequate use of appropriate exam-

ples to illustrate points put forward.

Entries for the competition should be submitted by March 31st, 1963, to the Secretary, Chartered Auctioneers' and Estate Agents' Institute, 29 Lincoln's Inn Fields, London WC2, from whom entry forms and the rules of the competition can be obtained.

### ANNOTATED TAX CASES

Part 3 of Volume XLI of the Annotated Tax Cases, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, has now been published and contains reports with notes on the judgments of the following cases: Gordon & Blair Ltd v. C.I.R. (C.S.); Littlewoods Mail Order Stores Ltd v. C.I.R. (H.L.); De Voil v. Welford Gravels Ltd (C.A.); In re Bird (C.A.); Thomas McGhie & Sons Ltd v. British Transport Commission (Q.B.D.); C.I.R. v. Luke (C.S.); Frasers (Glasgow) Bank Ltd v. C.I.R. (C.S.); C.I.R. v. John

M. Whiteford & Son (C.S.); Jarrold v. John Good & Sons (Ch.D.); C.I.R. v. Verdon-Roe (Ch.D.).

The annual subscription to the Annotated Tax Cases is 50s post free; the publishers are Gee & Co (Publishers) Limited, 151 Strand, London WC2.

### SEVENTY-FIVE YEARS AGO

From The Accountant of October 20th, 1887 A Weekly Note

PERHAPS one of the most curious questions raised since the present Bankruptcy Act was passed came before his Honour, Judge GRIFFITH, of the Oldbury County Court, a week ago. Sec. 40, sub-sec. B, of that Act provides that all wages or salary of any clerk or servant, in respect of services rendered to the bankrupt during four months before the date of the receiving order, not exceeding £50, should (with other similar matters) be preferential claims on the estate. A chartered accountant of Birmingham audited, for a fixed fee, the accounts of the Bromford Ironworks of Mrs. Dawes, trading as John Dawes & Sons, who failed a few months since. The accountant in question seems to have been of opinion that the amount owing to him at the time of the suspension, in respect of the audit, might be claimed for as a preferential debt, under the provision of the Bankruptcy Act just mentioned, as, so his solicitor contended, he was a servant of the bankrupt and his claim was for service rendered. His Honour decided against the claim, with costs, and declined to grant an appeal, a decision which we take the liberty to think all men of sense, including ninety-nine out of every hundred members of the Institute, will perfectly agree with. We are astonished that any chartered accountant should, for a moment, claim to be put on a footing with servants. In ridiculing the idea the Board of Trade and Judge GRIFFITHS did what every member of the profession should be glad of. If the applicant was what he contends to have been, a servant of Mrs. Dawes, he had not, in our opinion, any right to be a member of the Institute. A more utterly inconsistent contention was surely never heard, and the fact that it has been put forth and publicly commented on, will give just annoyance to professional accountants, who recognise that their very status and living rests upon the assumption that they are independent accountants. They cannot fail to be conscious that a recognition by the court of the contention that they were servants would be utterly fatal to their claims to confidence, and disastrous to their true interests....

MOTOR — FIRE — CONSEQUENTIAL LOSS

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### LONDON STUDENTS' COLUMN

### News from the London Chartered Accountant Students' Committee

by A Student Member

'The London Students' Society is putting on the agenda for the conference of the Union of Chartered Accountant Students' Societies in December the relation of students' societies and technical colleges in connection with the introductory courses recommended by the Parker Report, the encouragement of transfer of articles, methods of wider professional education, and time off for sports.

Mr Llewellyn-Smith, Mr Khan and Mr Finning have been appointed the Society's delegates to the Conference.

### Vacancy

The vacancy on the committee, caused by the resignation of Mr B. K. P. Moll, has been filled by the cooption of Mr P. Duffell.

### Parker Report

It has been decided that paragraphs 6, 11b, 12 and 17 of the Institute's interim recommendations be reconsidered by the committee shortly before the special meeting of the Institute is called, with a view to arranging for the Society's comments to be presented by a speaker at that meeting, and that a letter be sent to the Institute to draw attention to problems arising out of the decisions which have already been taken.

#### Contra

During its first year, the four issues of the Society's new magazine seemed likely to cost more than £1,000. It was suggested that an increase of advertising revenue might relieve the financial burden of future issues and the committee decided that the experiment should continue for two more issues and that judgment on whether it was worth the cost be suspended in the meanwhile.

### **Investment Pool**

The committee has decided to suggest that the Society's scholarship funds be transferred to the new investment pool organized by the Institute, but to retain the general funds in a more readily realizable form, at least until the situation concerning the Society's need for new premises next year becomes clearer.

### Activities

The opening lectures of the general course in the autumn session have shown disappointing attendances. The mechanized accounting course and the introductory course have, however, got off to a good start.

The "Taverners' annual general meeting attracted only twenty-three members. However, a reshuffle

on the committee left members hopeful that the club would soon see a return to an active and constructive approach to members' problems, together with renewed vigour in the social field.

Contra's 'Open meeting' was effectively sabotaged by the recent one-day rail strike, and the Editorial Board are arranging for joint consultation before they try again in January!

#### **Future Events**

The usual Christmas 'Mock company meeting' will be held on December 4th, at the Chartered Insurance Hall. There will be ample opportunity to criticize the accounts and the board, and to throw out the retiring directors.

Members are requested to keep in mind that Wednesday night is debates night (in the Council Chamber of the Institute).

The annual dinner will be held at Grosvenor House on Monday, December 10th, and speakers will be Lord Godber, Mr Stewart-Smith (Chamberlain of London), Mr H. B. Lawson, M.C., B.A., LL.B. (President of The Law Society), and the President of the Institute.

The Christmas Dance will be held at Dunster House on Friday, January 4th, 1963. Tickets are now available at £3 (double ticket).

### Next Week's Meetings

Monday, 5.30 p.m., at the Institute, Moorgate Place, EC2. Lecture on 'Telling the tale to management', by Mr Christopher Bostock, M.A., F.C.A., F.C.W.A. Chairman: Mr W. K. Wells, B.A., F.C.A. (Hon. Treasurer of

the Students' Society).

Tuesday, 5.30 p.m., Lecture and demonstration of

Remington accounting machines (limited number). 6 p.m., "The Punters' monthly meeting. 7.30 p.m., at Guildford: Lecture on 'Losses and subvention payments', by Mr V. S. Hockley, B.COM., C.A., F.A.C.C.A.

Wednesday, 6 p.m., Lecture and demonstration of Burroughs Accounting Machines (limited number). 6 p.m., at the Institute: Debaters' 'Brains Trust'. 7.15 p.m., at Reading: Lecture on 'Investigations for purchase or sale', by Mr R. S. Waldron, F.C.A. Thursday, 5.15 p.m., at the Institute: Introductory course lecture on 'The conduct of a typical case in the Courts',

by Mr Patrick W. Medd (Barrister-at-law). 6 p.m., "The Taverners' monthly meeting.

Friday, 5.15 p.m., at the Institute: Introductory course lectures on 'Management accounts and costing', by Mr Kenneth G. Bishop, A.C.A. (chief accountant, Yardley & Co Ltd), and 'Partnership law', by Mr Patrick W. Medd (Barrister-at-law).

Saturday, 10 a.m., at Luton: Lectures on 'Profits tax' and 'Losses', by Mr L. A. W. Jordan, A.C.A.

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### Boosting the Economy

TTH the total of registered unemployed in excess of five hundred thousand, with substantial surplus capacity in steel, shipbuilding, heavy and light engineering, the only question when the Parliamentary Opposition moved its censure motion last Monday was what measures for reviving the economy Mr MAUDLING would announce.

Initial reaction to the Chancellor's statement may be as important as the longer run effects thereof. Closer examination of his proposals suggests that they may depend for their effectiveness more upon their psychological impact than upon their direct effects. The increased capital allowances are desirable in themselves, if only to encourage a faster writing-down of plant and machinery. The increase, for example, in the investment allowance is effectively of the order of 50 per cent. This coupled with the higher annual allowances ensures that the maximum total allowance given in the first year of life of new plant and machinery will be 55 per cent. The minimum allowances will ensure that within the first five years industry will be able to write down plant and machinery by 91 per cent of its cost. This, as readers of the note 'New Taxes for Britain' on page 600 will recognize, will have the effect of bringing British practice in the writing-down of capital equipment more closely in line with that which applies in the member countries of the European Common Market.

The most effective stimulus to capital investment in manufacturing industry is the knowledge that a buoyant and expanding market exists. At present this is not the case. Furthermore, there is adequate unutilized fixed capacity in most industries to meet such expansion in demand as may reasonably be expected in the near future. The real value of the revised capital allowances lies in the fact that they may presage a new attitude towards the tax treatment of productive investment in the United Kingdom. In the minds of many industrialists there has lurked the fear that these rates are liable to change with every fluctuation in the economy. The CHANCELLOR's assurance of the enduring nature of the new measures is to be welcomed therefore, for it cannot be sufficiently stressed that industry should be given every encouragement to equip itself with the most modern plant and equipment. If any evidence for this argument is needed one has only to examine the experience of the Common Market countries. Closely allied to the introduction of higher investment allowances as a means of increasing the efficiency and competitive capacity of British industry is the welcome increase in the allowances in respect of scientific research expenditure.

Much more controversial is the CHANCELLOR'S proposal to cut purchase tax on new cars from 45 to 25 per cent. The justification for this preferential treatment is the expectation that any expansion of output in the motor-car industry will exert an all-pervading effect upon the ancillary industries of the Midlands and the south. This argument certainly carries more conviction than the suggestion that the tax relief will stimulate exports. Undoubtedly, however, the Chan-CELLOR has been influenced by the fact that a larger output of cars could be achieved from the existing capacity without further straining labour resources, and thereby generating renewed inflationary pressures. Indirectly the potential expansion of demand for new cars should encourage the industry to press on with its new factories in the depressed areas. In this context it was interesting to note that Mr MAUDLING intends to encourage the Board of Trade to pursue a more active policy in the matter of industrial location.

The reduction in the rate of purchase tax applicable to motor-cars doubtless anticipates the reduction next April of the 45 per cent rate to 25 per cent on the remaining classes of goods liable to this rate. This is not so much a matter of equity, as part of the avowed policy of amending the purchase tax. The widely disparate rates are undoubtedly a thing of the past and it could well be that in due course the tax will be transformed into a single rate tax.

There may well be grounds for thinking that the latest proposals still do not go far enough either to stimulate the economy overall, or to reduce the growing unemployment which is so much in evidence in the depressed areas. It is clear that more direct and positive measures will be needed to deal with that problem. Nevertheless, it is quite clear that Mr MAUDLING proposes to make haste slowly. Although the ever-present threat for sterling is no longer as marked, now that the autumnal pressures have passed, the danger that increases in incomes will outstrip the growth in production is all too obviously present. The latest offer to the railway workers, while not unreasonable in view of their relative position in the wages race, will almost certainly initiate new pressures from organized labour. It remains to be seen whether the National Incomes Commission can meet the challenge.

Details of the increased capital allowances have been announced by the Board of Inland Revenue as follows:

(1) Investment Allowance

(a) The investment allowance in respect of capital expenditure on new plant and machinery will be increased from 20 per cent to 30 per cent. The same increase will apply to capital expenditure on new mining works and on new scientific research assets (see also paragraph (2) below).

(b) The investment allowance in respect of capital expenditure on new industrial buildings and structures will be increased from 10 per cent to 15 per cent. The same increase will apply to capital expenditure on new farm and forestry buildings and works

(2) Scientific Research Assets

The investment allowance in respect of capital expenditure on new plant and machinery and new buildings and works for use in scientific research will be increased from 20 per cent to 30 per cent. Such expenditure which is at present allowed as to 60 per cent in the first year, and 10 per cent in each of the next four years, will in future be allowable in full in the first year.

- (3) Annual Allowances: Plant and Machinery The annual allowance for plant and machinery, which is at five-fourths of a basic rate calculated by reference to the anticipated normal working life of the plant and machinery will, in the case of new plant and machinery bought after November 5th, 1962, be subject to a minimum rate of 15 per cent actual (corresponding to a basic rate of 12 per cent) where the norma 'reducing balance' method is employed (section 281 Income Tax Act, 1952) or 6½ per cent actual (corresponding to a basic rate of 5 per cent) where the 'straight-line' method is employed (section 282).
- (4) PLANT AND MACHINERY: EFFECT OF PROPOSALS
  The combined effect of the proposals to increase the investment allowance from 20 per cent to 30 per cen and to provide a minimum annual allowance of 1 per cent (reducing balance method) will be that the total allowances given in the first year of allowance will be 55 per cent, as a minimum, namely, an investment allowance of 30 per cent, an initial allowance of 10 per cent (unchanged) and an annual allowance of 15 per cent.

The total minimum allowances over other period will be:

Per cent

In to and including the fifth year

Up to an	d incl	uding t	he fifth year	91
,,	,,	,,	seventh year	102
,,	,,	"	tenth year	113
••	•••	••	fourteenth year	121

(5) Effective Date

The necessary legislation will be introduced in nexyear's Finance Bill. It is the intention that the change outlined above will apply in relation to capital expenditure on new qualifying assets incurred afte November 5th, 1962, that is, in relation to sum becoming payable after that date.

### Policy for Incomes

ARD on the heels of Dr BEECHING's offer of a 5 per cent pay increase to the railway unions<sup>1</sup>, came the White Paper last Monday announcing the terms of reference and membership of the National Incomes Commission to be presided over by Mr Geoffrey LAWRENCE, Q.C. The commission is to have the status of a standing Royal Commission. All the members - referred to under 'Weekly Notes' in this issue - are distinguished in their respective ields and all have wide experience of negotiations on wages and ancillary matters. Nevertheless, it would be unwise to pretend that the mere appointment of the members of this commission, nowever distinguished they may be, represents nore than a first step towards the formulation of an incomes policy. The latter, as we have frequently stressed, remains the most important single problem in the economy. The most obvious ind outstanding weakness of the commission is hat reference to it by parties in dispute is opional and not compulsory, just as the Governnent may refer particular matters to it. Yet, this s hardly surprising in view of the trade union movement's initial reaction to Mr Macmillan's proposals for the commission.

Any attempt to forecast the potential value of NIC would be foolhardy in the extreme. What can be said with confidence, however, is that the new body represents the one faint hope of alting the cost-push inflation of recent years. It is therefore imperative that every effort shall be made to publicize its activities and to make lear to the public at large the nature of the problem which it must solve. With public opinion aligned in support of NIC, its supporters might well have the satisfaction of witnessing a significant contribution to Britain's economic revival.

The following are the commission's terms of reference:

(1) The parties immediately concerned may refer to the commission for inquiry any current claim or specific question relating to pay or other conditions of service or employment. (The Government concemplates that in cases where issues of special importance appear to arise it may if necessary itself take the initiative in calling on the parties to take this action.)

(2) The Government may refer to the commission for review any matters relating to pay or other conditions of service or employment where the cost is met in whole or in part from the Exchequer.

(3) The Government may refer to the commission for retrospective examination any particular settlement relating to pay or other conditions of service or employment (other than an award at arbitration).

(4) In considering any such reference the commission is required to have regard to any evidence which may be received from the parties immediately concerned or from other parties who appear to the commission to have a substantial interest in the issues arising or from or on behalf of the Government.

(5) In considering any such reference the commission is also required to have regard both to the circumstances of the case concerned and to the national interest, including in particular:

(a) the desirability of keeping the rate of increase of the aggregate of monetary incomes within the long-term rate of increase of national production;

(b) the desirability of paying a fair reward for the work concerned;

(c) the manpower needs of the service, industry or employment concerned, taking into account any regional or local differences in such needs, and the importance of securing the most efficient deployment and use of national resources including manpower;

(d) the policies and practices in the service, industry or employment concerned in such matters (where appropriate) as pricing, profit margins, dividends, efficient use of manpower and equipment and organization;

(e) the repercussions which a particular settlement in the case concerned might have in other employment.

(6) The commission is required to publish its findings on these matters and its recommendations together with reasons for them.

(7) Profits. – In addition the commission is required to have regard to the Government's pledge that if any undue growth in the aggregate of profits should result from restraint in earned incomes, that growth would itself be restrained by fiscal or other appropriate means. The commission is instructed to report from time to time on the need, if any, for such action to be taken.

(8) General or particular studies. – The commission is also empowered to undertake general or particular studies relating to all or any of the matters referred to in the foregoing paragraphs.

(9) Authority to call for information etc. - The commission is authorized under the Royal Warrant to call before it such persons as it judges likely to afford information relevant to its inquiries; to call

for information in writing; and to call for, have access to, and examine all such books, documents, registers and records as may afford the fullest information on the subject.

(10) The commission is authorized to sit at the

chairman's discretion in more than one division; to call in the aid of qualified assessors; and to visit such places as are expedient in the furtherance of its inquiries. The powers of the commission may be exercised by any three commissioners.

### Short-term Gains - XVIII

### SPECIAL TAXPAYERS and PROFITS TAX

AST week we began to examine paragraph 15 (3) of the Ninth Schedule to the Finance Act, 1962, which deals with the case where a debtor transfers property to his creditor in satisfaction of the debt.

Suppose a debt is satisfied in such circumstances that the creditor is not treated as disposing of the debt, i.e. where the debt is not on a security as defined in paragraph 11 of the Ninth Schedule and the creditor did not acquire the debt from a third party. Suppose further that the creditor takes property in satisfaction of the debt and then disposes of the property within the statutory period, so as to be chargeable to Case VII tax on the acquisition and disposal of the property. Under the general rule laid down by the first part of paragraph 15 (3) the profit would be computed on the footing that the creditor had paid market value only for the property, and not the higher face value of the debt. The second part of paragraph 15 (3) directs that nevertheless the chargeable profit is to be restricted so as not to be greater than if the creditor had paid a consideration equal to the face value of the debt.

Provision is made in the Finance Act, 1962, for special classes of taxpayer. We have already dealt with charities, and other bodies exempted by section 15 (1) (2) (3) (4)<sup>1</sup>. An ordinary assurance company having a life assurance fund is theoretically chargeable to tax under Case I of Schedule D in respect of its life assurance business. It follows that gains on the resale of investments would normally accrue as part of the profits of such a company's trade. By definition, therefore, section 10 (1) is inoperative to impose Case VII tax on such a company. However, in practice nearly all life assurance companies pay tax, not on a Case I basis but on

Section 15 (7) of the Finance Act, 1962, was introduced as late as July 2nd, 1962, its object being to protect the British Transport Com mission and its offshoots from Case VII liability which might arise by reason of the changes introduced by the Transport Bill. Under this Bill the Commission's assets are to be transferred to four new boards or to a holding company. The new boards and the holding company would acquire the assets on the vesting date provided for, and therefore, if they then disposed of the assets, or some of them, Case VII liability might arise. Equally, the Commission itself will be disposing of the assets on the vesting date, so that its recently acquired assets might attract Case VII tax. These dangers are avoided by means of section 15 (7).

the basis of being investment companies making management expenses claims under section 425 of the Income Tax Act, 1952. They are therefore very much in the position of mutual life assurance companies. However, mutual companies are not even theoretically chargeable to Case I tax. Accordingly, they do not have that ground for exemption from Case VII tax. This anomaly was pointed out to the Government at the Committee stage, and the result was the introduction of section 15 (5). This subsection expressly exempts from Case VII any gains which accrue to an assurance company from the acquisition and disposal of investments of its life assurance fund, but which, by reason of the mutual nature of the company's business (or part of it), do not accrue as profits of a trade. It is the function of a trustee or assignee in bankruptcy to acquire the bankrupt's assets and dispose of them as speedily as reasonably possible. Such acquisition and disposal does not attract Case VII tax (section 15 (6)).

<sup>1</sup> See The Accountant, August 25th, 1962.

We come now to the question of profits tax. It will be recalled that this tax is imposed on bodies of persons (mainly companies) which carry on a trade or business, and that an investment company is deemed to carry on a business for this purpose. Given that a company is thus within the profits tax net, then its Case VII gains and losses must also be brought into account in computing the profit for profits tax purposes. This is the broad effect of section 10 (7) of the Finance Act, 1962.

Having laid down this general rule, section 10 (7) as originally drafted then went on to set out some detailed provisions which proved to be woefully inadequate. At the committee stage the Government had to accept the voluntary assistance of Mr Geoffrey Stevens, f.c.a., M.P., who, by a pair of amendments, put the matter right (except on one point which required a further amendment at a later stage). The detailed provisions are contained in three paragraphs (a), (b) and (c) which lengthen the subsection to a page and a half.

Paragraph (a) makes it clear that not all Case VII gains and losses are to be included, but only those accruing from the acquisition and disposal of assets where income arising from those particular assets, to the disponor, would be brought into account as a receipt in computing the profits (including franked investment income) of the 'trade or business'. In the case of intra-group payments of interest, annuities, rents and royalties, section 42 (5) of the Finance Act, 1938, directs that such payments be ignored for profits tax purposes. Nevertheless, this provision is not to prevent the operation of paragraph (a). If such payments would be brought into account but for section 42 (5), the Case VII profits and gains on the underlying investments are also to be brought into account.

The chargeable accounting period for profits tax purposes may not necessarily coincide with a period of accounts. Paragraph (b) makes it clear that one must have regard to Case VII gains and losses accruing in the chargeable accounting period. The provisions for division and apportionment of the profits of a period of accounts contained in section 20 (3) of the Finance Act, 1937, are therefore not to apply in relation to such gains or losses.

Paragraph (c) deals with the case of a group of

companies where a 'grouping notice' is in operation, i.e. the profits (or losses) of the subsidiaries are grouped with those of the parent company, under section 22 of the Finance Act, 1937. The gains or losses under section 10 of the Finance Act, 1962, which by virtue of paragraph (a) have to be brought into account in computing a subsidiary's profits tax profits, are to be the same as if no grouping notice was in force. However, paragraph (c) then goes on to make modifications to this general rule.

A subsidiary's aggregate Case VII gains in a chargeable accounting period, after deducting the losses permissible under the Case VII legislation, are to be treated as if they were a Case VII gain accruing to the principal company in its corresponding chargeable accounting period, and falling to be included in its chargeable profits for profits tax purposes. But this is only for specific purposes, viz. deducting losses allowable to the principal company under Case VII legislation and also the purposes of subparagraph (ii) of paragraph (c). This sub-paragraph (ii) provides that where losses accrue to a subsidiary in a chargeable accounting period, so as to be allowable to the subsidiary under the Case VII legislation, but they exceed the Case VII gains if any, then the excess is to be allowed as a deduction in computing the subsidiary's profits and losses generally of that period. Sub-paragraph (ii) is not to apply unless Case VII gains (in excess of Case VII losses) are to be included in the principal company's computation of profit for the corresponding chargeable accounting period. Furthermore, sub-paragraph (ii) is not to produce a greater set-off against general profits of the subsidiaries than the net amount of Case VII gains included in the principal company's computation of the corresponding chargeable accounting period.

We conclude this review of the short-term gains tax with a few words about administration. The taxpayer must show his Case VII gains on his income tax return, and the ordinary provisions as to assessment and appeals apply. Paragraphs 3, 5 and 7 of the Ninth Schedule give to the taxpayer an election in certain circumstances, which have already been examined. Paragraph 19 lays down detailed provisions as to the manner in which such elections are to be exercised. These provisions are reasonably straightforward.

### Variation on the Balance Sheet Theme

by T. E. GAMBLING, B.COM., A.C.A. Lecturer in Accounting, University of Birmingham

It is clear that the Jenkins Committee recognize the difficulty that the published accounts of companies, as at present prepared, do not reflect the value of their undertakings with the accuracy which a layman might reasonably expect of them. The suggested remedy is that realizable values should be stated where these differ substantially from book value. It has always seemed to the writer that the historical development of double-entry accounting has taken a course which itself gives rise to many of the problems and inconsistencies with which accountants have to contend.

### **Present Cost of Old Ideas**

Speculation of this sort may seem to some to be a particularly futile hobby of the academic mind, but if it could be shown that 'accounting theory' or the accumulation of the historical development of accounting has played some part in such practical matters as, say, the *Duple Motor Bodies* case, it would appear that the results of early nineteenth-century theorizing (or the lack of it) can cost money today and actively distort the financial development of the future.

As was mentioned in an earlier article<sup>1</sup>, the balance sheet presented no problem to the Tudor merchant; it was no more than a trial balance prepared at long and irregular intervals after closing off such revenue accounts as he may have seen fit to employ. Especially since he would probably have debited his few 'capital items' to his stock, or as we would call it capital, account, he would never have dreamed of using his balance sheet as a definitive statement of hisfinancial position at a given point in time. Had he been called upon to do so, he would have prepared an inventory which would include items such as cash, debtors and creditors taken from the books, but which would otherwise have been a physical valuation of his assets. It may be that a good deal of the present difficulties stem from the first unknown book-keeper who thought it possible to create an automatic inventory out of the balance sheet figures.

The increasing size of business enterprise gave rise to the long-term continuing partnership and

<sup>1</sup> See 'A Flaw in the Jewel?' The Accountant, February 11th, 1961.

then the joint-stock company, and the need to hold the balance between a number of investors' interests for an indefinite series of transactions, or between management and the absentee proprietors, brought about the preparation of regular annual accounts consisting of a statement of the profits earned during the period under review and the position of the concern at the end of it.

### **Double Account System**

It is interesting to note that some of the earlier joint-stock ventures did not adopt the now usual form of balance sheet, but instead employed the so-called 'double-account' system; one's first reaction to this might be, 'Of course they used the double-account system, because the earliest (internal trading) corporations were canal, railroad and gas undertakings'. On the other hand, the nationalized bodies which now operate these industries have all abandoned the double-account system, while similar undertakings founded a little later on the Continent and in America appear never to have used it at all. From this it might seem that this system represented an earlier line of thought on the presentation of static information as to a company's position, which was soon superseded by the current method. If this were so it could be argued that canal companies. and railways adopted the double-account system not so much because it was particularly suited to their methods of finance and operation, but because as the first 'modern-style companies', they were founded at a time when the system enjoyed at least equal popularity with the present 'single-account' system.

The mushroom growth of joint-stock companies in the first half of the nineteenth century represented a raw and aggressive capitalism and in particular the resounding abuses of the 'Railway Age' undoubtedly covered this type of accounting with an air of disrepute from which it was never able to escape. However, the older system has certain virtues over the newer one which seem to have been overlooked. The shortcomings of the 'new' balance sheet arise because fixed assets are normally shown at their historical cost, less a provision for depreciation; the resulting figure is no more than the unrecovered portion of the expenditure carried forward to future periods and

yet by some alchemy it represents the 'value' of the asset to the firm. This leads on to a number of intellectual difficulties.

### Conflict of Ideas

First, there is conflict with the management accounting outlook on fixed assets as 'sunk costs'. An accountant may think of a capital item as an annual charge against profits of £1,000 for ten years, but from the point of view of the management it is just a payment of £10,000 right now. This is illustrated by the 'sources and applications of funds statement', which shows 'new plant' as an application of funds in the year of purchase and reveals depreciation charges and 'losses on sale' to be no more than paper transactions which have no effect on the 'cash flow' of the business (i.e. the profit before depreciation, less taxation and dividends).

Secondly, it follows that £10,000 spent on plant is just as surely spent as the same sum expended on wages, and one might see a justification for the allocation of the expense over the accounting periods that benefit from its use. Unfortunately, this treatment results in an erosion of capital in a period of depreciating currencies and it appears that what is required to be recovered from revenue is, in fact, the replacement cost of the asset. It is submitted that a large part of this difficulty proceeds from an incorrect understanding of the term 'capital expenditure'.

Thirdly, before expanding this last point, mention should be made of another management problem arising from attempts to use a balance sheet as an inventory. Balance sheet ratios often have a rather dubious reception from the practical pusiness man; their valid use with concrete values s obvious, but when the mixture of valuation pases met with in the average balance sheet is considered, figures based on such foundations nust indeed be viewed with reserve.

Finally, it is argued that at least some part of he dispute over the inclusion or omission of werheads in or from stock valuations is the idea hat the resulting 'stock figure' must in some way epresent the value of the inventory. If the probem is viewed as one of postponement of the neidence of certain expenditure on to future rading periods, the unlikelihood of treating any ixed overhead in this way becomes more apparent.

To return to the second difficulty mentioned bove, the basic feature of the old double-account ystem was a much more careful distinction etween capital and revenue expenditure, classiying expenditure on equipment for a project ever hitherto undertaken as capital items, but holding purchases of durable equipment that merely replace existing installations to be revenue. This philosophy is well adapted to an asset such as a railroad system where maintenance is obligatory and replacement by something completely different is, to say the least, an infrequent event; the situation is very different in a manufacturing industry where the average life of the assets is much shorter and technological changes will not only make for accelerated replacement of existing machinery, but also for the discontinuance of whole processes and even products. For this reason, no doubt, the single-account system was preferred because it treats all purchases of producer durables alike.

The fundamental difference between the capital expenditure of public utilities and that of, say, the light engineering industry is that the latter type of plant is rarely 'renewed' in the strict sense of the word, because it is not, in general, physically possible to purchase in 1962 an exact replica of an existing machine originally bought in 1952 or earlier. Since the products themselves have undergone development, any attempt to calculate 'elements of improvement' with the object of ascertaining the true cost of the replacement or any element of increased cost due to inflation can be no more than playing with figures. What has happened is that part of the original capital of the company, whether subscribed as equity shares, preference shares or debentures, has been irretrievably sunk in fixed assets almost immediately upon its receipt; since then additional equipment has been purchased, financed in part by more or less untaxed provisions for depreciation and for the rest from taxed reserves or the reduction of the working capital. It should be observed that the 'provisions for depreciation' used in this way are all the provisions on the whole plant and not merely those on the items supposedly being replaced.

### A Modern Adaptation

This is the aspect disclosed by the movement of funds statement and it may be that the old double-account system provides the most logical presentation of these transactions. Although the Companies Act envisages a single-account balance sheet it seems quite possible to adapt the double-account system both to the requirements of the Act and the everchanging equipment of light industry. Since it is desired to show the exact source of the funds absorbed in the existing plant, it is necessary to extinguish a source once the relevant asset goes out of use.

£

115,000 32,000

£183.000

Original

£115,000

### ACCOUNTANT

The working capital is the residual item of finance and is provided by those parts of the original subscriptions and subsequent provisions and reserves not absorbed for the time being in the purchase of fixed assets. It is tempting to think of the item of stock-in-trade as having something of the nature of a fixed asset, but to do so is once again to make the assumption that items are invariably replaced. An attempt to

Authorized and issued share capital

Revenue reserves

distinguish elements of renewal in stocks would give rise to a series of judgments of Solomon, and it might seem better to visualize these items as payments in advance to be treated in pretty much the same way as an insurance premium paid in respect of some future period.

Here is an illustration of how the accounts of a small company might be restated in a modification of the double-account form:

at	March.	31st, 1962		
-	£ 0,000	Fixed assets - at cost		
21	B,000	less depreciation to date	• •	• •
108	8,000			
10	0,000			
ור	ב מממ	Current accets		

Reserve for future taxat 6 per cent Debentures	ion			108,000 10,000 25,000	Current assets			83,000
Trade creditors Accrued charges Current taxation	• • • •	••	13,000 7,000 12,000		Stock and work in progress Debtors Payments in advance Cash	••	54,000 32,000 8,000 6,000	
Proposed dividend		•••	8,000	40,000		•		100,000

£183,000

X LTD SUMMARIZED BALANCE SHEET

This report is now restated under a revised 'double-account' system:

### BALANCE SHEET OF X LTD as at March 31st, 1962

I. Schedule of outstanding capital stocks								
80,000 Ordinary shares of £1 each, fully paid-up £25,000 6 per cent debentures (secured by a floating charge etc.)								
£23,000 6 per cent depentures (secured by a noating charge etc.)	••	••	••		25,000 £105,000			

#### II. Schedule of existing capital items - at original cost

	D	escrip	tion					I-3 <u>y</u>	rs	Age :	nalys II-	is 20 yrs	over 20 yrs	Total £
Freehold land and buil Plant and equipment Trade investments	dings	•	••	••	••	••	••	30,00 20,00		35,000		9,000 9,000	5,000 6,000	44,000 65,000 6,000
								£50,00	00	£35,000	£19	9,000	£11,000	£115,000
Financed as follows: (a) Capital stocks – less (I) expenditu (ii) Invested i	re on c	capital	items i				dispos	sed of	•••	• •		•••	£ 60,000 40,000	£ 105,000
(b) Provisions for th	الممد م		af a											5,000
(i) on existing (ii) on equipr	g capit	al equi	pment	٠	equipme	•nc ••	• •			••		••	32,000 30,000	
(c) Sales of capital e	quipm	ent no	longer	requi	ired	••	••	••				••	<del></del>	62,000 30,000
														97,000

It will be seen that no attempt has been made to place any values on the fixed assets; the object of the exercise is to draw up a balance sheet which conforms to the requirements of the Companies Act, but avoids the suggestion that the document is anything but a statement of receipts and payments on capital account.

### **Additional Information**

This method of presentation will require the inclusion of a number of points which are not normally disclosed at the moment:

- (i) The precise use of all capital sums raised will have to be recorded.
- (ii) The management will have to make it clear as to which sources they have utilized to finance the capital expenditure in any one year. This will normally show the following order of utilization:
  - (a) new capital;
  - (b) unabsorbed provisions for the renewal of assets now disposed of;
  - (c) provision as for the renewal of existing assets:
  - (d) capital reserves; and
  - (e) revenue reserves.

Finally, it will have been observed that it is proposed that an age-analysis of assets should be given. However, these additional matters should already be taken into account at some stage by the management and therefore do not represent nuch additional clerical work.

The writer is all too well aware that schemes of this sort are always suspect to those engaged in the day-to-day preparation of figures. They may say: 'These crackpot ideas are all very nice, but people understand the old way (or think they do!) and its not worth the bother; there are plenty of accounting problems more worthy of solution than this.' Nevertheless, if the difficulties in persuading the Inland Revenue to base capital allowances on amounts in excess of historical cost or their refusal to permit LIFO stock valuation can be attributed to a very natural belief that the balance sheet of a company must reflect some sort of value of the assets, it would surely be worth while to devote some time and effort to the correction of this myth. Stock valuation problems on the inclusion or noninclusion of overhead expenditure may be traced to this same 'valuation of inventory heresy'.

On another point altogether, it may be that some of the difficulty experienced over the pre-Jenkins years in the introduction of shares of 'no par value' may be attributed to the same cause. By demonstrating that funds sunk in fixed assets are no longer 'there' to be literally repaid, this new method of presentation might help to overcome any remaining difficulty and at the same time serve to make the issue of bonus shares out of capitalized reserves a little less sinister an operation to the non-accountant. Moreover, the clear distinction between capital and revenue resources, necessitating a formal transfer when

either capital funds are not fully expended and thus fall back into working capital, or conversely when revenue reserves are ploughed back in capital expenditure, may make new and more precise thought possible on the subject of illegal dividends and the repayment of capital generally.

### The Shareholders' Interest

One feature of the proposed system which is not likely to commend it to the business community, is that it demonstrates that the original share capital, by virtue of which the shareholders draw their dividends and exercise control, is usually no longer in existence in so far as it was spent on capital equipment that has been replaced. In this respect, shareholders are in the same position as holders of securities making up the National Debt; namely, all the shells have long since been fired, but the War Loan remains outstanding! The lessons to be drawn from the

concept that a company is usually self-financing once it has been primed, are not exclusively socialistic in character. It underlines the wisdom of the practice of confining equity shares to the provision of working (or risk) capital and raising funds for capital items by means of securities of some other sort.

The underlying aim of this article has been to suggest that some of the problems of accounting theory are of a purely semantic nature, arising from imperfections or misuse of the medium through which accountants try to express their thoughts. When so many very real economic, sociological and technological problems face business men and their financial advisers, it seems unfortunate that 'accounting research' should have so marked a preference for the fields of valuation, changing price-levels and methods of amortization where, at least in the opinion of one accountant, the difficulties are largely self-induced by the techniques employed.

### The Accounting World

### TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

#### UNITED STATES

### American Institute's New Offices

THE American Institute of Certified Public Accountants has removed from 270 Madison Avenue, New York, to new offices at 666 Fifth Avenue, New York 19, N.Y. Telephone: LT 1-8440.

### **Funds Statement Controversy**

COMMENT on the American Institute Research Division's Accounting Research Study No. 2, on Cash Flow Analysis and the Funds Statement, has revealed a considerable divergence of opinion. The committees of the American Petroleum Institute and the Panel of the Financial Executives Institute raised strong objections to treatment of the funds statement as a major financial statement. On the other hand, the Vice-President of the New York Stock Exchange greatly welcomed this treatment as a big step forward in financial reporting. He suggests a three-year trial and evaluation period before the Institute takes any final position in regard to it.

There was not unanimous approval of the suggestion that the funds statement be covered by the auditor's report. The Financial Executives Institute Panel think there is an implication that management's accountants cannot develop, when required, a funds statement in accepted form, derived from the

basic data in the audited financial statements, and they regard this as most unwarranted.

On the whole there seems to be no serious opposition to the suggestion that the statement should be broader than a mere reconciliation of cash or working capital, and a definition of 'funds' as 'all financial resources' has received approval though with some reservations. Nor has there been strong objection to the suggestion that the statement should begin with adjusted net income as 'funds provided from operations', depreciation and other adjustments being detailed in a footnote. The chief accountant of the Securities and Exchange Commission has indicated that the use of net income, rather than the General Accounting Office's recommended gross operating receipts and expenditures, is more likely to discourage the notion that amortization of prior years' capitalized charges may be ignored in the determination of income.

The Panel of the Financial Executives Institute disagrees sharply with the Study's statement that there is a strong presumption that the major portion of funds retained through depreciation accounting will be needed to finance replacements. They consider that funds derived from operations are homogeneous and that any presumption as to their disposition is unwarranted.

### HOLLAND

### International Bureau of Fiscal Documentation

THE annual report for 1961 of the International Bureau of Fiscal Documentation of Amsterdam, which is an independent and non-profit-making organization whose aim is to provide independent and objective information in the international tax field, records another satisfactory year.

The report is divided into three chapters, the first dealing with some fundamental tax problems of current interest, the second surveys some of the important developments in fiscal matters throughout the world, and the third chapter gives information on the activities of the Bureau.

Fiscal problems arising in respect of the relationship between countries which are economically developed and are exporting their capital and the development countries who are in need of capital are highlighted in the report. After outlining the resolutions passed by the Bureau at the 1961 congress of the International Fiscal Association (a report of which appeared in The Accountant of September 23rd, 1961) to this problem the report adds that it would be useful for companies to have the opportunity to accumulate their profits and reinvest them without paying heavy taxes. The countries with high taxes are increasingly endeavouring to prevent tax advantages of this nature which are contrary to the principles of their own laws. It is becoming increasingly clear, the report states, that the levying of taxes is no longer an exclusive national phenomenon, but that multilateral consultation between countries is needed to reach justified solutions which take into account the economic interests of all countries and of the taxpayers concerned. The Bureau's fortnightly review, European Taxation, first introduced early last year and originally intended for American corporations and tax counsels, has now reached the stage where it has many subscribers all over the world.

### OVERSEAS TAX DEVELOPMENTS

The following notes have been made available by the Inland Revenue Library (Foreign Section).

### **United States**

The publication by the U.S. Treasury Department of the Internal Revenue Service Revenue Procedure 62-21 ('Guidelines for Depreciation') does not entail any change in the basic methods of depreciation and does not supersede existing rules and procedures which may continue to be used. The new procedure is designed to simplify administration procedures and to enable taxpayers, provided certain standards are met, to claim tax lives consistent with actual replacement practices.

The new guidelines of useful life for about seventyfive broad classes of assets may be used without question by taxpayers for a three-year period. Thereafter their use will be accepted unless the taxpayer's replacement practice, as indicated by the reserve ratio test, is not in line with the depreciation claimed.

Specimen guidelines are:

Automobiles		3	years
Factories and office buildings		45	,,
Mining equipment		10	,,
Plant used in manufacture of mach	inery	12	"

The guideline lives are shorter than those laid down in the old Bulletin F but are not minimum useful lives; shorter periods can be adopted if the taxpayer can show that these are consistent with his actual replacement practice.

Change to guideline life. For assets which have already been depreciated to some degree, the new annual rate (cost price divided by the guideline life) is applied to the residual value of the asset.

Reserve ratio test. This is designed to measure the relationship between tax lives and replacement practice. It will enable the taxpayer to justify his depreciation practices including the use of lives below the guideline lives. It will only be used by the authorities in conjunction with established standards for imposing lives longer than those claimed by the taxpayer.

In applying the test the taxpayer's reserve ratio is first computed by dividing the depreciation reserves for a class of assets by (generally) the original cost of the assets, viz.

Depreciation reser	ves	 	45,000
Original cost		 	100,000
Reserve ratio		 	45 per cent

The asset ratio is then ascertained by comparing the cost of the assets with the cost of assets in the class one replacement cycle earlier, viz.:

Cost of present assets	 	100,000
Cost of previous assets	 	84,000
Asset ratio	 	T.TO

Assuming that it is desired to test a life (for the class) of nine years, then, from a table, the percentage rate of growth can be ascertained; in this example – 2 per cent.

Again from tables, the appropriate reserve ratio range for a test life of nine years with a 2 per cent rate of growth is, on the straight-line method of depreciation, 44-56 per cent. As the taxpayer's reserve ratio falls within these limits his use of a nine-year life and the straight-line method of depreciation is justified.

If, however, the taxpayer used the 'double declining balance' method, the appropriate reserve ratio range would be 56-64 per cent. As the taxpayer's reserve ratio is only 45 per cent he would be justified in adopting a shorter class life of (from an adjustment table) 7.5 years. This adjustment may be made automatically if the taxpayer had been using the 'old' life for at least half of that life.

# Changes in the Purchasing Power of Money-II

by W. E. PARKER, C.B.E., F.C.A.

#### Classification of Assets in the Balance Sheet

ECAUSE of the importance which I attach to the effect which changes in the value of money have on the monetary position (as distinct from the position in commodities) of commercial undertakings I question seriously the relative usefulness of the distinction which is generally drawn in Britain and America between 'fixed assets' which include plant and equipment that is used in the process of trading and 'current assets' which include the stocks of merchandise which are held for sale in the course of trading. Particularly in manufacturing concernsthere is often in practice only a fine distinction between items of plant which are used in producing the saleable products and items of materials and components which also are so used. The plant normally appears among the 'fixed assets' and the materials and components among the 'current assets', the broad distinction between them being the difference in the length of time over which in the ordinary course their use in the undertaking will be spread. There is a presumption that items of materials and components are used up quickly, while items of plant continue in use over a much longer period. While in general this presumption has ample validity to justify distinguishing plant from inventories, there are in my experience few manufacturing concerns in which one does not find that some of the plant is used up at least as quickly as some of the materials and components and even the saleable merchandise (e.g. stocks of spare parts) in the inventories. Even, however, if this amounts to no more than a marginal overlapping of the two categories of asset, it seems to me that in principle the distinction between plant on the one hand and materials and components on the other is not so great as to warrant the degree of emphasis which British and American accountants attribute to it. Both are 'goods' which are used, and sooner or later used up, in securing the sales, and each is indispensable to the trading process. Admittedly the periodic accounting for the consumption whether of plant or of inventories is more difficult where use extends over a number of periods, but this strikes me as being hardly a good reason for drawing such an emphatic distinction in the accounting presentation. As I see it, the expenditure on plant and on inventories is all of it expenditure laid out for the purpose of making merchandise available

The concluding part of a paper presented at the Eighth International Congress of Accountants in New York on September 24th. for sale. As the sales are made, so the expenditure, whether on plant or on inventories, needs to be set against the sale proceeds in a manner which will show whether the sales have given rise to a profit or loss. To me the distinction which monetary instability makes of paramount significance is not between assets of long life (fixed assets) and assets which are being continually 'turned over' (current assets) but between assets which are goods (notably premises, plant and inventories) and assets which are money (notably cash and accounts receivable).

### Difficulties in the Way of Accounting Progress

22. Whatever view one may take of all these matters. it is a fact that since 1951-52, when the statement by the American Accounting Association, the report of the American Study Group on Business Income and Recommendation 15 of the English Institute of Chartered Accountants indicated a substantial measure of agreement among them, not only on the nature of the problem of changes in price levels, but also on the lines of practical approach to it, there have been few signs of any real progress along those lines. In the meantime in my own country the value of money has continued to fall, by about one-fourth over the ten years which have since elapsed. The reasons for lack of progress are not difficult to enumerate. One of them is that, as a profession, we are not in a position to dictate to the business community. In my own country, at any rate, the responsibility for producing accounts of commercial undertakings, whether for tax purposes or to comply with corporation law, rests on the managements of these undertakings. The production of supplementary information to show even broadly the effect on such accounts of changes in the value of money requires time and effort, especially in the research needed in order to establish for the first time an opening position in terms of money of a common vintage. Time and effort are expensive and we are not in a position to insist on such expenditure. As advisers we can advocate, as auditors we can comment, and as professional bodies we can recommend and make representations, but that is the limit of our influence. The second difficulty is that, however responsive Governments or the proprietors and managers of business undertakings might be to our influence, wage earners who use good profits as one of their arguments for higher wages can hardly be expected, at least until they have come more generally to think of wealth in 'real' terms, to do other than

oppose new-fangled accounting devices which may reduce the 'good profits' which inflation seems to bring. I do not accuse the trade unions of such simple-mindedness, but they have to carry their membership with them. Governments too, in democratic countries, have to carry the electorate with them and for political and fiscal reasons are unlikely, unless forced by circumstances, to support or initiate steps which in conditions of inflation might have the appearance of offering the equity stockholder and the business tycoon a protection which is denied to the rest of the community.

23. These are difficulties which can only be overcome by the growth of understanding in all sections of the community, both national and international, of the implications of the fact that money, while an excellent medium of exchange, is a most unreliable store of wealth. I believe that this growth of understanding is taking place, though in differing degrees in different countries. The notion is well understood by those who have lived through a severe currency inflation; it is, quite naturally, least understood by those who have been accustomed to reasonable monetary stability. But there is one difficulty for which the remedy lies in our own hands. This is the difficulty of reaching a wider and more precise measure of agreement among accountants generally as to the manner in which changes in the value of money should be reflected in the accounts of commercial enterprises. It would be a real step forward if the discussions at our Eighth International Congress resulted in extending the area of agreement.

### Suggested Basis for Agreement Among Accountants

24. To that end I put forward for discussion the following propositions as indicating what I believe to be, for the present, the best practicable solution from the standpoint of the equity stockholder.

- (1) The problem of accounting for transactions which have been recorded in monetary units of the same currency but different purchasing power should be regarded by accountants as analogous to that of translating into terms of one currency transactions recorded in a number of different currencies. We have long been familiar with this problem in undertakings which trade in a number of countries with different currencies, and we have no hesitation in translating units of one currency into those of another by reference to rates of exchange between them. Within any one currency 'rates of exchange' can similarly be established between the monetary units of different dates by comparison of their respective purchasing power.
- (2) The manner in which accounts are presented and results are measured should be related to the standpoint of those for whom the presentation and measurement are being undertaken. Unless the contrary is known, the presumption

- underlying an investment in equity capital is that of continuance of the undertaking; accordingly provision must be made for maintenance of all the resources, including the monetary resources, which are essential to this continuance before the profit or loss can be ascertained.
- (3) The essential resources of an undertaking will not have been maintained at a level which secures its continuance unless any diminution of their purchasing power has been made good. The reflection of purchasing power in accounting statements involves modification of the accounting principles which at present have general acceptance in many countries.
- (4) It is out of the question to expect Government and the community generally to accept overnight a new accounting treatment of a situation which is not new. For the time being therefore accounts should in general continue to be presented on the traditional basis that items which represent forms of wealth other than money are translated into terms of money by reference to their historical cost in money of the value which prevailed at the time when the cost was incurred.
- (5) These 'traditional' accounts should however be accompanied or followed by supplementary accounts showing the effect on the results and on the entire resources of the undertaking of changes in the value of the money in which the accounts are expressed.
- (6) The supplementary accounts also should be based on historical costs but these should be expressed in, and for that purpose translated into, monetary units of current purchasing power. The items requiring this translation will be all those items in the accounts which are not money or obligations fixed in terms of money, and will therefore include premises, plant, inventories, goodwill and, on the other side of the balance sheet, the equity capital.
- (7) In so far as these 'historical cost' items (notably plant and inventories) are 'consumed' in the earning of income the historical cost of this consumption charged against the gross earnings should, in the supplementary accounts, be translated into terms of the monetary unit by reference to its value at the time of the consumption; the net earnings so determined will then reflect the true profit or loss on trading at that time.
- (8) In so far as these 'historical cost' items remain unconsumed at the end of the trading period the unconsumed balance of their historical cost should, in the supplementary accounts, be translated into terms of the monetary unit by reference to its value at the end of the period.
- (9) These translations will create a net difference on the supplementary accounts. The difference will represent, and should be shown as, the

amount by which the purchasing power of the equity capital has been augmented or eroded by the effect on the undertaking's monetary assets and obligations of changes in the value of money.

#### Note:

Where the resources employed in the undertaking consist in part of non-equity capital, i.e. non-participating share and loan capital whose rights are fixed in terms of money, the net difference on the supplementary accounts will comprise two elements, a charge (or credit) to income for the loss (or gain) in value of the monetary resources of the undertaking and a credit (or charge) to capital surplus for the gain (or loss) to the equity from the decrease (or increase) in the value of the monetary obligation to holders of the non-equity capital – see paragraphs 29 and 30.

25. The effect of this treatment of changes in the value of money can be illustrated, in its simplest form, by the following example. Assume that an undertaking is provided with one hundred units of money as equity capital with which to buy a piece of equipment. The equipment is to be used to provide services to customers. Over the first half of the equipment's useful life the services provided produce 80 units of money. Over the same period the value of money falls by one-third, so that by the end of the period 150 units of current money are needed to replace one hundred units of the original money. The results of this period and the position at the end of it are shown in the first column below on the 'traditional' basis of historical cost, and in the second column on the basis of translating the historical cost of the non-money items into the changed value of money in the period (for the statement of results) or at the point of time (for the closing position) to which the figures relate.

	Traditional	Adjusted	
Results for the period			
Money produced by ser-		_	
vices rendered	· 8o	80	
Less: Equipment con-			
sumed in providing		() (1	
these services	50	(a) $62\frac{1}{2}$	
m 1' C.		1	
Trading profit	30	17½	
Less: Depreciation of		<b>1</b> 01	
monetary resources	_	122	
Net income	30	5	
ivet income			
Closing position			
Equipment, at cost less			
depreciation	50	(b) 75	
Cash	80	80	
•			
	130	155	
	-		
Equity capital	100	(b) 150	
Undistributed income	30	5	
	130	155	
		Electric	

Notes:

(a) Translated at the average rate of one hundred original units=125 current units,

(b) Translated at the closing rate of one hundred original units=150 current units.

In this example the only monetary resources which are essential to the undertaking are those representing the accumulation of the depreciation charged against the money income to allow for the using up of the equipment. The sixty two and a half units which on the 'adjusted' basis were set aside for this depreciation at the average 'exchange rate' of 125 were retained in the form of money and accordingly lost value. With a closing 'exchange rate' of 150 the loss was  $\frac{25}{125} \times 62\frac{1}{2} = 12\frac{1}{2}$ . This loss needs to be made good if the undertaking is not to be impaired.

26. If in the above example the value of money remained stable during the remainder of the useful life of the equipment - stable, that is to say, at the rate of 150 current units = one hundred original units - the charge against gross trading income for the remaining depreciation of the equipment would amount to seventy-five units. The undertaking would then be left with capital resources in the form of 150 units of money, representing  $137\frac{1}{2}$  (=62 $\frac{1}{2}$ +75) set aside out of gross trading income for depreciation of the equipment and a further twelve and a half set aside out of the balance of that income to make good the loss in the purchasing power of these resources. If the used-up equipment was then replaced by new equipment, whether identical or different, at a cost which was greater or less than 150 units, I should argue that the difference represented a change in the capital required for the undertaking, not (as the proponents of 'current cost' accounting might argue) a failure to make the right provision out of past earnings for its maintenance.

### Criteria for Measuring Changes in the Value of Money

27. I appreciate that one of the practical objections to making adjustments for changes in the value of money is the absence of any prescribed or universally accepted criterion of these changes. I admit the fact but do not regard the objection as serious. I hope it is clear from what I have already said that the criterion which I think appropriate is a general measure of purchasing power, not one related to the prices of particular goods or services; and, since I am approaching the problem from the standpoint of the man in the street as an equity stockholder, the relevant purchasing power seems to me to be that of money in the hands of the retail consumer. For supplementary accounts, which at this stage would be intended only for the better information of those who are relying on 'traditional' accounts, I should have no hesitation in using for undertakings operating in Britain British Government's official index retail prices. Even though this index is imperfect, it is widely regarded as a reasonable indicator of changes in the value of money to the general public.

In my view for these supplementary purposes any reasonable indicator of these changes can well be used. It seems to me most unlikely that, in a reflection of change, the margin of error would be material in comparison with the margins of error which are inherent in so many of the matters of judgment and estimate on which the preparation of accounts depends in any event. The supplementary accounts would disclose what index had been applied, just as in Britain it is customary, and indeed under the Companies Act a statutory requirement, to disclose what exchange rates have been used where it is necessary for accounting purposes to translate foreign currency into sterling.

28. There is also the practical objection that indices of purchasing power do not become available promptly enough, and that the preparation of accounts based on them would therefore have to be unduly delayed. This objection too does not impress me. I believe that disproportionate emphasis has been placed on the importance of publishing accounts very soon after the close of a financial period. Unreasonable delay would invite valid criticism, but a moderate delay is in my view desirable in order that past events may be seen in the proper perspective. What I do regard as important is that there should be a regular publication date, so that delay beyond that date does not give rise to anxiety and speculation. I see however no reason (apart from some additional expense) why those who wish to do so should not go to press with their 'traditional' accounts and let these be followed later by the supplementary accounts. The British official index of retail prices is published each month one month in arrear.

### Effect on Holders of Non-equity Capital

29. It has been my experience that, when the question of changing price levels is debated, it is generally assumed that, since with a falling value of money the determination of profits on a basis which takes full account of this fall will usually result in the reporting of lower profits, the adoption of that basis will prejudice those stockholders, for example holders of non-participating preferred stock, whose rights are fixed in terms of money. I do not agree. So far in this paper I have assumed in my illustrations that the whole of the capital employed in an undertaking is equity capital. In those conditions the amount which has to be provided out of monetary income to maintain the purchasing power of the undertaking's resources is the same amount as that needed to maintain the purchasing power of the capital provided by the equity stockholders. Where however only part of the capital is provided as equity capital, a provision out of monetary income to maintain the capital resources as a whole will be greater than the provision required to maintain only the purchasing power of the equity. The excess will represent a gain for the equity stockholders resulting from the fact that the claims of other providers of the capital are fixed in terms of money and therefore depreciate as the value of money falls. Although this gain must be retained in the business if the capital resources are not to be impaired, I am of the opinion that, in so far as it is not counter-balanced by any losses of the undertaking, it should be drawn on to meet any claims of the providers of non-equity capital which cannot be met out of income. If it were not so drawn upon, the gain accruing to the owners of the equity capital would improperly include a gain derived from defaulting on the fixed obligations to the non-equity stockholders.

30. The point can be illustrated by reference to the example which I have given in paragraph 25. If in that example one-half of the one hundred units of money provided as capital had been raised in the form of non-equity capital, the loss, on the 'adjusted' basis, of twelve and a half units in the value of the monetary resources of the undertaking would have been doubly compensated from the standpoint of the equity stockholders by a capital gain of twenty-five units from the depreciation of the claims of the non-equity capital. The closing position of the undertaking on the 'adjusted' basis would then have been as follows:

	·			Curren units	
Equipment, at cost less Cash	depred	iation	•••		75 80
					155
Subscribed capital					
Equity	ed in		of	(a)	75
money)	• •	••	•••		50
					125
Capital surplus	• •	• •	• •		25
Total capital resource	ces of t	he und	ler-		
taking	• •				150
Undistributed income	• •	• •	••		5
					155

(a) Translated at the rate of 150 current units = one hundred original units.

My argument is that in this example the amount which should be regarded as available to service the non-equity capital is not merely the five units of undistributed income but also the twenty-five units of capital surplus, that is, thirty units in all. It happens that this is the same amount as would have been shown to be available on the traditional basis of accounting. It does not follow that this would always be the case, but the existence of non-equity capital would always, on a falling value of money, give rise to a capital surplus and, since non-equity capital includes loan capital as well as non-participating share capital, this surplus may often more than counterbalance the additional charges which, on the 'adjusted' basis, a falling value of money imposes on the income account.

### Effect on the Accounts of International Undertakings

31. May I observe in conclusion that the adoption of the proposals which I favour would simplify many of the problems which we now encounter in producing accounts in one currency of transactions which have taken place in countries with different currencies. Most of these special problems arise on the translation of the monetary amounts attributed to the possession and consumption of goods and services bought with foreign currency. While the depreciation of equipment continues to be calculated on an historical cost unadjusted for changes in the value of money, we have yet to solve satisfactorily the problem which arises when, for example, because of a change in the rate of exchange between the foreign currency and the home currency, the trading results of the foreign

subsidiary or branch after charging depreciation show in terms of the foreign currency a profit but in terms of the home currency a loss, or vice versa. Similarly, while foreign property continues to be carried in the balance sheet at an unadjusted historical cost, we have yet to solve satisfactorily the problem on translation into the home currency of how to deal with a difference in exchange on long-term indebtedness for money which was borrowed in the foreign country to finance the purchase of the property. I submit that, if the cost in foreign currencies of goods and services were adjusted for changes in the purchasing power of those currencies, these problems would largely disappear and there would be prima facie justification for translating the adjusted costs into terms of the home currency at the current rates of exchange.

### Weekly Notes

### NATIONAL INCOMES COMMISSION

As mentioned in a leading article in this issue, the membership of the National Incomes Commission was announced in a Government White



Mr L. C. Hawkins

Paper on Monday. Of particular interest to the profession is the appointment to the Commission of Mr L. C. Hawkins, C.B.E., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales. Mr Hawkins has been connected with London transport services since 1929 and recently retired as one of the five full-time members of the London

Transport Executive, a post he had held since 1947. In 1955 he was chairman of a commission of inquiry into the public transport system of Singapore. Mr Hawkins has been a member of the Council of the Institute since the integration of The Society of Incorporated Accountants in 1957, and previously had been a member of the Council of the Society since 1947.

Mr Geoffrey Lawrence, Q.C., Chairman of the Commission, has been Recorder of Canterbury since 1952. He took silk in 1950 and was a member of the Royal Commission on Marriage and Divorce in 1951. He has also served as a member of the Review Body on Doctors' and Dentists' Remuneration.

Professor H. S. Kirkaldy, C.B.E., who will be deputy chairman of the Commission, has been Professor of Industrial Relations at Cambridge University and a Fellow of Queens' College since 1944. He was a member of the Industrial Disputes Tribunal from 1952–59 and is at present chairman of a number of wages councils under the Wages Council Act.

The fourth member, Sir Harold Benwell, a solicitor, has been Secretary of the Association of Municipal Corporations since 1944. He was previously Clerk of Lincoln County Council (Parts of Kesteven) and before that Town Clerk of the City of Lincoln.

The Commission's secretary will be Miss Mildred Riddelsdell, C.B.E., who has been an under secretary at the Ministry of Pensions and National Insurance since 1950.

### **BALANCE OF PAYMENTS STATISTICS**

In the latest edition of Economic Trends<sup>1</sup> issued last week, balance of payments figures are given which are supplementary to those published in the half-yearly White Papers. These are annual figures back to 1952 on a basis which is consistent with that used at the present time. Until now only figures from 1958 onwards have been available on this basis.

Like other official statistics which are commonly quoted, the quarterly statistics of the United Kingdom balance of payments are affected by seasonal factors. In order to get some idea of the underlying trend in the balance of payments an attempt has now been made to produce estimates from which seasonal factors are eliminated. These seasonally adjusted figures must still be used with care and treated as subsidiary to the unadjusted figures because they are

<sup>1</sup> H.M.S.O. Price 5s.

lerived from a limited run of years and the basic lata is still subject to error.

Comparing the seasonally adjusted estimate with he unadjusted ones shows that seasonal factors are avourable for this country on current account in the irst half of the year and unfavourable in the second ralf. The half-yearly seasonal variation is mainly in he invisible items for which the first half is favourable and the second half unfavourable. So far as visible mports and exports are concerned these are seasonally low in the third quarter but since seasonal nfluences are greater on exports than on imports, he net effect on the trade balance is adverse to the extent of about £25 million. This is largely made up n the fourth quarter when exports show a seasonal purt.

### STAMP DUTY ON GUARANTEE

F a purchaser enters into a written agreement under hand to purchase certain shares for a price o be finally determined later, and the agreement provides for a bank to guarantee payment up to \$750,000 of the purchase price, in the form of a lraft deed scheduled to the agreement, what stamp luty is payable on that guarantee when it is executed?

In Henry Ansbacher & Cov. C.I.R., in accordance vith their settled practice, the Inland Revenue laimed £1,875 duty under the first subhead of the read 'Mortgage' etc. in the First Schedule to the Stamp Act, 1891. They argued that the guarantee was 'the only, or principal, or primary security for he payment of £750,000, and therefore, attracted luty at 5s per cent of that sum. The taxpayer claimed hat the sale agreement, although itself exempt from tamp duty as being an agreement for the purchase of shares, was the 'principal or primary security', f any, and that the guarantee was a 'colateral or uxiliary or additional, or substituted security' within subhead 2 of the head 'Mortgage' for which the naximum duty is 10s.

Danckwerts, J., held that the guarantee did not all anywhere within the head 'Mortgage', and ssessed the duty at 10s (39 A.T.C. 10).

When the Inland Revenue appealed from this lecision, the Court of Appeal accepted the taxpayer's contention (40 A.T.C. 186). On November 1st the House of Lords upheld the Court of Appeal.

### WORKING CONDITIONS IN THE OFFICE

THE text has now been published of the Offices, Shops and Railway Premises Bill. It is expected hat this will affect more than a million premises and about eight million workers. Premises include about our hundred thousand offices, more than six hundred and fifty thousand shops and about thirty thousand ailway premises. The Bill sets out requirements on realth, safety and welfare.

The definition of a shop includes not only what are

conventionally thought of as places where retail or wholesale trade is carried out, but also launderettes. It will include premises where food is sold to the public for immediate consumption which will include public houses, cafés and public dining-rooms of hotels. On the other hand, private residential hotels or boarding-houses are excluded except where their offices and bars are open to the public. The Bill applies only to premises where people are employed and, therefore, excludes accommodation used only by the self-employed and it excludes premises where persons are usually employed for less than twenty-one hours a week.

General conditions are laid down about cleanliness and minimum temperatures. Suitable provision will have to be made for adequate supplies of fresh and ventilated air. There are also standards set for lighting, sanitary conveniences, washing facilities, first aid, fire precautions and exposure to dangerous machinery. No premises are to be so over-crowded so as to cause risk of injury to health and it is provided that after five years from the date at which the Bill is made law, staff (mainly those employed in offices) shall have forty square feet of floor space each. This is the area recommended in textbooks on the subject for those doing clerical work.

### NEW TAXES FOR BRITAIN?

Lirevocably towards adopting an added-value tax on the French pattern' and if Britain joins the European Economic Community then it 'seems unlikely that the period allowed for transition will be more than five years'. So concludes a new study of the impact upon the United Kingdom tax system of membership of E.E.C., prepared by *The Economist* Intelligence Unit for the National Association of British Manufacturers. The elimination of the purchase tax, as it is replaced by the added value tax, is a change which, in the opinion of the authors, would be to the advantage of British exporters and also of those industries at present most severely hit by the purchase tax.

The overall effect of even such a limited measure of tax harmonization would be to shift the balance of the United Kingdom tax system towards a greater reliance upon indirect taxes. It is especially noteworthy that the cost of social security upon the employer is very much heavier than in Britain and this is also passed on into the costs of production. It is generally agreed on the Continent that direct taxes upon industry work their way through higher prices on to the consumer.

One interesting point made in the booklet is that stock values are arrived at on a basis which is much more favourable to the manufacturer than is the United Kingdom FIFO system. In Belgium, for

<sup>1</sup> Taxes for Britain. Price 6s net.

example, the manufacturer is confronted by no statutory rules and is given considerable latitude.

Deductions for capital allowances are much more generous. According to figures, attributed to an American Treasury report, the average 'tax life' of industrial equipment in Belgium is only eight years, ten in France, Germany, Italy and the Netherlands, compared with twenty-seven years in Britain. Clearly, the validity of this comparison depends on the equipment chosen for purposes of the comparison, but the lesson seems clear.

Perhaps the most remarkable suggestion in the

report is that because 'the evasion of tax by small traders has reached a stage when the present system has become almost farcical', continental Revenue authorities should have powers to impose arbitrary assessments based upon evidence of the standard of living of the taxpayer. This would seem to be one feature of European tax administration that Britain can do without. As far as direct taxes are concerned, any harmonization will take time, but the figures given in the booklet suggest that individual direct tax burdens are lower in the E.E.C. than is sometimes made out to be the case.

### This is My Life . . .

by An Industrious Accountant

CHAPTER 145

OUR sales manager and I are good friends now; there was a time, however, when our mutual hostility was a byword in the office. It was his fault, of course – well, mostly, anyhow. His suggestions were often ill-judged, you understand, and when I tried to put him right (with as much tact as possible, naturally), he would become quite disgruntled. Admittedly, I was younger then, and in retrospect, woefully inept in handling such an alien species as the salesman.

The feud became embittered when I was summoned before our directors one afternoon and asked to explain the low percentage margin in the ladies' ready-to-wear section. It was budgeted to make 24 per cent gross profit; in fact, it had achieved 19 per cent. Possibly, suggested the managing director with rather sinister courtesy, I could indicate the reason for the short fall. After all, I had produced the figures; ergo, I should know the answer. He had the air of Richard Crookback about to say 'Off with his head'.

The other directors were the stern looks of men anxious to mete out summary justice immediately, Scotty, the sales manager, with perspiration on his brow, sat plucking nervously at his collar.

I must admit I gave them a blunt answer. No devious subterfuges, no shilly-shallying; just straight from the shoulder stuff. 'I can't explain anything', I said cheerfully. 'The figures give you the facts; the reasons are a matter for the men in the department. Unless you'd like me to arrange a post-mortem, analysing stock and purchases in each category against individual sales dockets, in order to check pricing irregularities – at the cost of a lot of expensive overtime, naturally.'

Scotty regarded me with a look of some dislike, I noted with surprise. He seemed to have a somewhat hunted look in his eye.

The deputy-chairman put forward a typically misguided idea. Why not have each departmental chief enter in a special book every price reduction or trade discount he allowed, he suggested. Obviously the tot at any stage should amount to the discrepancy in the percentage, thus satisfying everyone. Furthermore, inspection would enable the directors to assess the trend of allowances given, thus enhancing their control.

At first sight, it seemed a likely solution. Scotty endorsed it heartily; it would enhance his control over his subordinates also. All the directors congratulated the deputy-chairman; he accepted their plaudits modestly; you'd think he'd said something sensible.

It was left to me to be the single small voice in the wilderness. I said: 'Suppose the reductions don't tot to the discrepancy? Where are we then?'

Scotty was most insulted. He wanted to know if I was maligning his staff; was the implication that they'd malevolently and deliberately omit to note their own reductions, or worse still, that they were pilfering? The directors were outraged also; the deputy-chairman took particular umbrage. They practically cast me into exterior darkness, they even aspersed my arithmetic.

I'd better draw a veil over the succeeding months. All departments agreed to maintain detailed records alas, their tots never corresponded with anything the omissions in busy periods were almost automatic. Sometimes it was just a matter of forgetting the entry, sometimes involved or interrelated bargains to good customers were delayed for final authorization. Sometimes there were just no entries, they said unblushingly. The sales manager was convinced, and stooped so low as to assert, that our accounts figures were inaccurate; the deputy-chairman was hectoring and harassing; life was hell. No one had perception enough to appreciate my contention that it was Scotty's responsibility, not mine, to see that the reduction records were completed properly.

When the frustrated directors finally stopped asking for the figures, I joyfully stopped keeping them, by unanimous and tacit consent. But it was a long time before Scotty forgave me.

# Finance and Commerce

# Camp Bird

THIS week's reprint is from the accounts of Camp Bird Ltd for twenty-two months to February 28th, 1962, presented to the recently held general meeting of the company. It is a company with more than one interest but the one in which shareholders have shown most concern is the revival of the old Camp Bird mine in Colorado which has yet to justify, in profits, the money spent on it. 'General neeting' is important. It would appear that validity of proxies may depend on the correct description of the meeting for which they were given.

This particular episode in the company's history, n fact, provides another instance of the vital need in company administration to get things right. It is a point that has been urged in this column with practical example lately: that an objective, such as a change of directors, etc., which may have taken long hours in preparation of groundwork can fail when it comes to the crucial point, because the provisions of the Companies Act and/or the company's articles have not been observed.

### **Proxies**

In the Camp Bird case, there were nine resolutions on which a poll vote was required, the first being on the adoption of the accounts. Resolutions 2, 3, 4 and 5 were supported by Investors' Protection Facilities Ltd, 2 and 3 to remove the chairman and the company's one other director from the board, 4 and 5 to appoint Mr S. H. Hogg, D.S.O., M.C., F.C.A., and Mr J. H. Leaman.

Resolutions 6, 7, 8 and 9 coming from another quarter were for the appointment of four other gentlemen to the board, and were carried on the poll vote in approximate figures by something over 1.7 million to about 850,000.

On Resolutions 2, 3, 4 and 5, the company's announcement shows the situation: 'Having regard to the legal advice given to him concerning the technical error in the proxy card deposited by Investors' Protection Facilities Ltd and the irregularity in Mr Brackenbury's voting as shown by the scrutineers' certificate, the chairman felt compelled to invalidate the documents. At the same time in fairness to all shareholders, the chairman has instructed solicitors to place both matters before the Court for legal judgment, so that the scrutineers may be given a basis on which to finish the counting'.

'The appointment of Mr Brackenbury as the firstnamed proxy-holder on the cards issued by the company to all shareholders arose from an invitation by the company to Messrs Hogg and Leaman to appoint a proxy-holder independent of the persons involved in the four resolutions in question. Mr Leaman nominated Mr Brackenbury, and the company's solicitor, Mr S. Nyman, agreed to act as the second-named independent proxy-holder. Mr Brackenbury was accepted as the first-named proxy by agreement with the directors of the company on the grounds that this would reflect the directors' desire to be impartial in the exercise of proxy votes'.

# **Technical Error**

The nature of the 'technical error' came out in the discussion at the meeting: the proxies were made out for an annual general meeting and not for a general meeting; a simple point, and yet one on which, according to the chairman, legal advice had differed.

The rest of the story is told in the certificate by Messrs Amsdon, Cossart & Wells, Chartered Accountants, acting as the scrutineers. It shows by the voting figures that Resolutions 1, 6, 7, 8 and 9 were carried. The voting figures, it is stated, include the votes cast by Mr S. E. Taylor as a named proxy-holder on the form of proxy issued by Investors' Protection Facilities Ltd. An analysis of these particular votes showed no votes in favour and 747,760 against each resolution 'so that it is clear these resolutions were carried whether these particular votes are included or excluded'.

The scrutineers continue: 'We are unable to certify the results of the polls demanded on Resolutions numbered 2, 3, 4 and 5 because we need guidance as to how the votes cast by Mr Brackenbury are to be dealt with. Mr Brackenbury was the first-named proxy on each of two forms of proxy issued by the company. Some of these completed separate forms of proxy authorized the proxy-holder to vote for some or all of the resolutions, some authorized the proxy-holder to vote against some or all of the resolutions, while the remainder left it to the discretion of the proxy-holder as to how the votes should be cast on some or all of the resolutions'.

'Mr Brackenbury, however, merely signed the proxy poll card, having struck out the word "Against" on each of the Resolutions numbered 2, 3, 4 and 5. In the circumstances we are unable at present to decide what to do, and before proceeding any further, we require the point at issue to be resolved.'

'No question arises in respect of Resolutions numbered 1, 6, 7, 8 and 9 as Mr Brackenbury cast no votes thereon'.

In a way, it is rather a pity that Mr Hogg and Mr Leaman should have decided by the end of that week to withdraw completely to avoid involving the board and the company in embarrassment and further expense. A Court decision would have been enlightening. But the whole affair does show how necessary it is to pay the greatest attention to detail.

Incidentally, as the chairman pointed out, it matters not whether shareholders adopt accounts or not. They are still the company's accounts verified by the auditors.

# Camp Bird Limited and Subsidiaries Consolidated Profit and Loss Account for the twenty-two months ended 28th February, 1962

Year ended 30th April, 1960 £	3,082 833 609 Profit 182,315 Profit 179,233		566,461	19,766	558,802 185,442 17,500 104,439	887,643 32,222		846,258	183,369 Profit (20,341)	150,449	210,473	5	260,473		1 6	260,473	173,648	£1,019,906 Credit £17,080	Gredit £17,080
41	247,436 22,707 262,466			7,659	227,474 32,083 69,284					17,080	17,080 56,746 67,566	I	141,392				315,040		
Trading losses (less profits) including provisions for depreciation and for amortisation of pre-production costs and development	(see Note 1) Call Mine Cold Forging Process Other trading interests	Losses less profits on realisations of interests in subsidiaries, associated companies and other investments	Sundry income:—	Dividends and interest received (gross)	Add: Administration expenses	CONSOLIDATED LOSS BEFORE TAXATION (see Note I) Taxation recoverable (1960 payable)	CONSOLIDATED LOSS AFTER TAXATION Less: Proportion of losses attributable to outside shareholders	CONSOLIDATED LOSS AFTER TAXATION ATTRIBUTABLE TO MEMBERS OF CAMP BIRD LIMITED	dealt with in the accounts of:—  Camp Bind Limited Subsidiary Companies	Balances brought forward:— Camp Bird Limited	Add: Amount transferred from investment reserve (see Note 3) Arrears of interess—Durango Timber Co. Limited		259 38	elopment expenditure	:	capital reserve (see N ble to subsidiaries di	. 1	Adverse Balanco (1960 Credit Balance) Carried to Balance Sheet	comprising:— Camp Bird Limited £1,019,906 Subsidiary Companies

# Camp Bird Limited Auditors' Report

With the exception that we are unable to express an opinion regarding the values of the items of development expenditure to which reference is made notes . . . give so far as concerns the members of Camp Bird Limited a true and fair view of the state of affairs as at 28th February, 1962, and the loss for the period ended on that date of the company and of the group in the following paragraph, in our opinion the annexed accounts and the consisting of the company and its subsidiaries, In the consolidated balance sheet the items referred to above comprise £373,008 (1960 £373,008) In connection with the cold forging business and pre-production costs in connection with the Camp Bird Mine £674,929 balance sheet of Camp Bird Limited for development expenditure and development expenditure £636,998 (1960 £415,733) and rights and licences (1960 £541,323); both businesses incurred trading losses during the period. These items are also substantially reflected in the amounts stated in the interests in subsidiary companies.

The accounts of certain subsidiaries have been audited by other firms.

sidered necessary. In our opinion the company has kept proper books and the balance sheet of the company, which is in agreement with them and with the said information and explanations, gives with the group accounts and notes in the prescribed manner the information required by the Companies We have obtained all the information and explanations which we con-Act, 1948. PRICE WATERHOUSE & CO. Chartered Accountants.

3, FREDERICK'S PLACE, OLD JEWRY,

LONDON, E.C.2.

7th September, 1962.

The notes on [page 614] form part of these accounts

AC	C	O	U	N	$\mathbf{T}_{A}$	1P	ľ	Τ
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30th April, 1960 £	13,331 58,893 415,733 373,008 860,965	12,605 68,970 541,323 622,898	978,904 153,554 1,010,160	3,900,095	101,219	106,787	17,094 12,360 29,454	339,735 38,513 38,548	1,498,554 1,207,474 55,083 106,545 97,673 2,965,339	£7,481,132
35 F	1,151,962	1,036,687	7	249,041	ı	- 117,247	220,104	M`` ∤	17.	£3,581,395
પા	14,037 127,919 636,998 373,008	11.814 349,944 674,929	9,311 127,921	201/4		41,734	183,112	11	244,369 422,968 96,300 25,346 17,371	-
FIXED ASSETS AND DEVELOPMENT EXPENDI- TURE (see note 5)	Cold Porging Trocess Leaschold property and buildings Machinery and equipment Development expenditure Rights and licences	Camp Bird Mine at Ouray, Colorado Freehold property Plant, machinery and equipment Pre-production costs	thold property ichold property hinery and equipment	olidire	NET PREMIUM ON ACQUISITION OF SHARES IN SUBSIDIARIES (see note 4)	INVESTMENTS AT COST Quoted (market value £42,113 1960 £85,249) Unquoted (see note 6)	INTERESTS IN SUBSIDIARIES IN LIQUIDATION NOT CONSOLIDATED (see note 7) Shares at cost less amounts written off Amounts receivable	INTERESTS IN ASSOCIATED COMPANIES Investments at cost less amounts written off Amounts receivable	Stock and work in progress  Balance of amounts receivable in respect of sales of investments (see note 8)	
30th April, 1960 £	2,432,927	213,182 326,034 539,216	56,746	Add 17,080	3,045,969	66,284	I	1,338,542 1,382,534 524,270 106,000 3,351,346		£7,481,132
	2,432,927	21,3182	2,773,959	906'610'1	1,754,053	250,000	307,834	568,963 339,624 357,894 — 1,266,481	٠.	£3,581,395
SHARE CAPITAL AND RESERVES CAPITAL	Authorised: 10,000,000 shares of 10/- each £5 Issued: 4,865,855 shares of 10/- each, fully paid	CAPITAL RESERVES Share premium account Capital reserves (investment holding companies) (see note 2)	REVENUE RESERVE Investment reserve (see note 3)	Less: ADVERSE BALANCE (1960 CREDIT BALANCE) ON PROFIT AND LOSS ACCOUNT	RESTS IN SU	' Aside for futi	AMOUNTS PAYABLE TO SUBSIDIARIES IN LIQUI- DATION NOT CONSOLIDATED	Creditors and accrued charges Bank loans and overdrafts (£259,708 secured 1960 £1,023,771} Taxation Dividends payable to outside shareholders in subsidiaries	For and on behalf of the Board JOHN DALGLEISH $\textbf{C. MAXWELL NORMAN}$	

The notes on [page 614] form part of these accounts

Camp Bird Limited Notes on the Accounts

10. Commitments for capital expenditure of the Group at 28th February, 1962, amounted to approximately

503,204

# THE ACCOUNTANT

614							ACCO'	UNTA	NT	l				Nove	nber 1	0th, 1962
o	13,331 58,893 415,733 373,008	£860,965	n the cold n adopted ods up to n October,	Net	12,605 68,970 541,323	£622,898	1 on a unit of 150,000 nber, 1960	£ 978,904 153,554 1,010,160	£2,142,618	at cost, ress	equent to hange and	cised, will rket value	subsidiary, ate of the	rs secured re contract. cordingly. r taken up y by 28th	on shares	is secured
30th April, 1960 Depreciation & Amortisation	24,463	£25,161	experience i ttion has bee ges over peri th effect from	30th April, 1960 Depreciation & Amortisation	290 13,356 11,153	£24,799	on are computed al mill capacity as on 1st Decentosts.  30th April, 1960	£ 23,448 5,356 506,860	. * 6	are stated a	Limited. Subs ito Stock Exc	vhich, lf exer 962, had a ma	h, through a solute the defeat the fact the	t, the Directo this under the roceeding as has only been ding compan	ts of a charge	e as follows:- 30 (1960 nil)
Cost	14,029 83,356 415,733 373,008	£886,126	in obtaining is of amortisa annual charg en applied wi	Cost	12,895 82,326 552,476	£647,697	depreciation are computed on a unit of page 150,000 or operations on 1st December, 1960 operating costs.	222	62,678,282	ov: ££/3,017)	pper Mines I on the Toron	is company, v	uidation whic lills, Portugal hue in view o	of the contract in full legal rig intions are p is subsidiary d in the hole	enture consis	accounts were which £46,00 roup.
962 Net	14,037 127,919 636,998 373,008	£1,151,962	been incurred hinery. A bas artly by fixed is basis has be e significant.	962 Net	11,814 349,944 674,929	11,036,687	pre-production costs and the major portion of s. Unit rates per ton milled are based upon noted life of twenty years from commencement cevelopment expenditure has been charged to 28th February, 1962.	82,000 9,311 127,921	019,232	re E.42,007 (17	t in Joutel Co	or shares in the	ted:	ith the terms of reserving the test and negot quidation of the trions receive	ints:— Mortgage Deb e period.	ovided in the 60 E1,174,401) of E173,279) of ssets of the G
diture 28th February, 1962 Depreciation & Amortisation	1,942 43,109 15,682	£60,733	ools and mac penditure, pre e on sales; the	28th February, 1962 Depreciation & Amortisation	1,081 43,520 43,995	965'887	costs and the major or ton milled are bir ty years from com- penditure has been 28th February, 1962	3,553 90,467	694,020	nt expenditu	oup's interest been grante	urchase furthe imately £27,5	ot Consolidation of the Abel	accordance will usiness, while ell the busin surplus on lic	s of investme 3.7 per cent. I	1962, not pro 1,075,743 (19 727,511 (1960 5 on certain a
ent Expendit 28 Cost	15,979 171,028 652,680 373,008	£1,212,695	nditure show loping the trelepment executages of cold forger	Cost 28	12,895 P- 393,464 718,924	£1,125,283	oduction cost rates per to of twenty y ment expend	218,388	(313,252	r devalopine	st of the Gr company has	option to pu	iquidation n the Group's undertaking	received in rees for the but the but to re-sult to re-s	ble from sale the £250,000 which was s	th February, Suarantees & Suarantees & by a charge
Fixed Assets and Development Expenditure  Cold Forging Process  Dep	Leasehold Property Machinery and equipment Development Expenditure Rights and Licences		The development expenditure shown above has been incurred in obtaining experience in the cold forging process and developing the cooled man machinery. A basis of amountation has been adopted which will write oif development expenditure, partly by fixed annual charges owns periods up or evelve years and partly as a percentage on a slies; this basis has been applied with effect from October, 1961, the date that sales of cold forect barts became significant.	Camp Bird Mine	Freehold Property Plant, Machinery and Equipment ment Pre-production Costs		rtisation of luction basi id an estima rhich date d	Freehold Property Lessehold Property Machinery and Equipment	£313,252 £94,020 £219,232 £25,678,282 £535,664	amounts written-off.	Onducted investments the cost of the Group's interest in Joutel Copper Mines Limited. Subsequent to This represents the cost of the Group's interest in Journal and on the Toronto Stock Exchange and on site Aureury 1962, this company has been market value of \$104.01s.	e Group also has an	or sortified in Liquidation not Consolidated:— Interests in Subsidiaries in Liquidation not Consolidated:— This mainly represents the Group's interest in a company in liquidation which, through a subsidiary, had as its main asset the undertaking of the LAbelheira Paper Mills, Porrugal. Since the date of the accounts a contrast for the sale of the Abelheira paper Mills, Porrugal. Since the fact that the sile of the accounts of the sale	amounts payable were not use and not the third with the terms of the contract, the Directors secured the appointment of Trustees for the business, while reserving their full legal rights under the contract.  The Trustees are instructed to re-sell the business, and negotiations are proceeding accordingly. In these circumstances, the estimated surplus on liquidation of this subsidiary has only been taken up in these accounts proportionately to the distributions received in the holding company by 28th	Balance of Amounts receivable from sales of investments.— Part of the security for the £250,000 7 per cent. Mortgage Debenture consists of a charge on shares relating to an investment which was sold during the period.	Contingent Liabilities at 28th February, 1962, not provided in the accounts were as follows:— Camp Bird Limited Guarantees £1,075,743 (1960 £1,174,401) Group  Group  by a charge on certain assets of the Group.
5. Fixed A Cold	Lease Mach Deve Right		The forgin which twelv 1961.	Cam	Freehol Plant, M ment Pre-pro		Amo of proc tons an from w	Freeh Lease Mach	ž		28th	2 d 1	7. Interest Thi	The and	8. Balance Par relati	9. Conting Camp Grou
owing:— Year ended 30th April, 1960 £		1	116,090	£1/23,836	28,143 £28,943	£12,193	326,034 37,586 41,432		£127,850	р Сотрапу	6 71,357				396,614	7
the followinded	59,832	31,485		-	236 44,890 £45,126	£14,469	<b>.</b> 	20,312 36,543 220,347		Group	56,746	1	: £ : 511,922 : 410,703			. 11,297 7 - 491,907
The consolidated loss before taxation is arrived at after charging the following:—  22 months ended Year.  28th February, 1962 30th Ap.  Depreciation and amortisation of fixed assets:— £	32,842	15,682	m	<b>5</b>	- 44 -		Movement in capital reserves other than share premium account:  Balance at 30th April, 1960 Add: Surplus on sale of property	Amounts written off mining claims Amounts written off industrial development expenditive ture Amounts written off premium on acquisition of shares in subsidiaries (Note 4)	Balance at 28th February, 1962 (Investment Holding Companies)		::	:	Movements in net premium on acquisition of shares in subsidiaries:  Balance at 30th April, 1960, comprising:— Premium on acquisition of Certain subsidiaries Isse: Canina reserves arising on acquisition of others	Add: Permium arising on acquisition of shares in subsidiaries during the year Capital reserve attributable to subsidiary not now consolidated (of which £64,506, being an amount applicable to any applicable to the subsidiary is death of which the subsidiary is death	eliminated on	271,560
is arrived at a xed assets:—		expenditure	tings .	np Bird Limite iaries:	::	•	han share prem	ng claims . strial develop ium on acquii	stment Holdi		count	:	tion of shares ising:— n subsidiarles acquisition of	on of shares subsidiary ne ng an amount in that subs	ınt) erve (£14,089)	sidiaries
fore taxation ortisation of fi	pre-productio	development	ests: enses: ixtures and fit	rectors of Can paid by subsid	uneration .	on (group) .	serves other to 1960 . of property of investment	Amounts written off mining claims Amounts written off industrial development expenditure ture Amounts written off premium on acquisition of share in subsidiaries (Note 4)	ary, 1962 (Inve	nt Reserve:	1960 . It and Loss Ac	агу, 1962	ium on acquisi , 1960, compr ition of certal	g on acquisities are tributable to t84,508, bei	nd Loss Accot ss capital rese	sales of interests in subsidiaries Amounts written off to:— Capital Reserves (Note 2) £230 Profit and Loss Account 271
e consolidated loss before taxation is arrived Depreciation and amortisation of fixed assets:	Cold Forging:	Amortisation of development expenditure	Other trading interests: Depreciation Administration expenses: Depreciation of fixtures and fittings	Emoluments of the Directors of Camp Bird Limited including amounts paid by subsidiaries:	Fees Management remuneration	Auditors' remuneration (group)	ovement in capital reserves other the Balance at 30th April, 1960 Add: Surplus on sale of property Profits on sales of investments		at 28th Februs	Movement in Investment Reserve:	Balance at 30th April, 1960	Balance at 28th February, 1962	ovements in net premium on acquisition of shares in subsi Balance at 30th April, 1960, comprising;— Premium on acquisition of certain subsidiarles less: Canital reserves arising on acquisition of others.	emium arish during the ye apital reserve ited (of which intel satisfication intel item)	ith In Profit a	sales of in Amounts wr Capital Re Profit and
I. The conso	Pool Apple	ŞĘ	Adai.e	Emolur	Fees Mans	Auditor	2. Movement Balance Add: Su Pr	Deduct:	Balance	3. Movemen	Balance Less: Tr	Balance	4. Movement Balance Prem	Add: P	W. Deduct:	

# CITY NOTES

AVING belatedly made the moves which had been obviously necessary for months, the Chancellor of the Exchequer has effectively emphasized that once a year Budgets are probably a thing of the past in a rapidly changing world.

An annual Budget in so far as it presents, so to speak, the audited accounts and the chairman's report on the previous twelve months is one thing; but it is very much another to expect the Budget to deal effectively with the following twelve months any more than a company chairman can look ahead with any degree of accuracy in his annual statement to shareholders.

The regular use of 'subject to unforeseen circumstances' is just as much a part of the Chancellor's annual statement as it is of the company chairman's.

It is not necessarily a sign of error in the first instance if new decisions have to be taken midway through the financial year. If there is error in the latest moves then it lies in the fact that action should have been taken earlier. As things are, the new moves on capital investment may take longer to work through the economy than some present optimists hope.

## RATES AND PRICES

Closing prices, Wednesday, November 7th, 1962

Tax Reserve Certificates: (interest rate) 25:8:62 24

Tax Reserve Certificates:	(interest rate) 25.8.62 2½%
Bank	Rate
Oct. 27, 1960 $5\frac{1}{2}\%$ Dec. 8, 1960 $5\%$ July 26, 1961 $7\%$ Oct. 5, 1961 $6\frac{1}{2}\%$	Nov. 2, 1961 6% Mar. 8, 1962 5½% Mar. 22, 1962 5% April 26, 1962 4½%
Treasu	ry Bills
Aug. 31 £3 15s 0.42d% Sept. 7 £3 14s 4.55d% Sept. 14 £3 13s 11.97d% Sept. 21 £3 14s 0.01d% Sept. 28 £3 12s 8.42d%	Oct. 5
I Money	Rates
Day to day $2\frac{7}{8} - 3\frac{7}{8}\%$ It days $2\frac{3}{8} - 3\frac{7}{8}\%$ Fine Trade Bills $3$ months $5\frac{1}{2} - 6\%$ 4 months $5\frac{1}{2} - 6\%$ 6 months $5\frac{3}{4} - 6\frac{1}{2}\%$	Bank Bills  2 months 4 16 -4 16 %  3 months 4 16 -4 16 %  4 months 6 months 4 16 -4 16 %
Foreign E	xchanges
New York         2.80 ½           Montreal         3.01 ½           Amsterdam         10.10 ½           Brussels         139.35 ½           Copenhagen         19.39 ½	Frankfurt 11:23 7 Milan 1739 8 Oslo 20:03 1 13:72 7 Zürich 12:09
Gilt-e	dged
Consols 4% 68\$ Fonsols 2½% 44 ½ Fonv'sion 5½% 1974 103 ½ Conversion 5½% 1969 93 Conversion 3½% 60 ½ Exchequer 5½% 1966 102 ½ Funding 5½% 82-84 101½ Funding 4% 60-90 93 ½ Funding 3½% 99-04 68½ Funding 3% 66-68 91 ½	Funding 3% 59-69 90 76 Savings 3% 60-70 87 8 87 8 87 8 87 8 87 8 87 8 87 8

# Reviews

### In-laws and Outlaws

by C. Northcote Parkinson. (John Murray, London 18s net.)

Professor Parkinson has never quite recaptured that first fine, careless, rapture which gave to the world his immortal law. In this respect, he resembles such worthies as Boyle and Gresham who are now mainly remembered for one blinding pronouncement. Professor Parkinson, however, differs from these pontifical types in that, happily, he is still very much with us and is still striving to consolidate his own celebrity. Perhaps he strives a little too hard. His latest offering, at any rate, gives this impression. The theme is how to get to and stay at the top, first by choosing the right father-in-law and then by employing certain arts and techniques in which cunning rather than brains is the essential administrative factor. His characters are models of City and society sophistication and, although his work is not in dramatic form, Professor Parkinson might yet become the Aristophanes of the Establishment if only he would be more selective and more self-critical towards his output. In Osbert Lancaster, he continues to have the ideal illustrator. The wedding group is a small but perfect masterpiece.

# German-English Glossary of Financial and Technical Terms

Fourth (enlarged) edition, by C. A. GUNSTON and C. M. CORNER. (Fritz Knapp Verlag, Frankfurt/Main. United Kingdom distributors: Patria Translations Ltd, 22 Cheyne Walk, Hendon Central, London NW4. £4 10s post free.)

To the uninformed, even though they may have some knowledge of conversational German, the item 'Rücklage für Abfertigungen gem. s. 6b EStG' in the balance sheet of an Austrian concern would be meaningless – and no dictionary, however elaborate, is likely to help very much. However, a quick glance at this glossary at once indicates that the sum set opposite the above words shows the reserve for staff service termination payments in accordance with Article 6b of the Austrian Income Tax Law.

It is a cliché that a language is a living and growing thing. But in the post-war world of exchange control, international financial agreements, and ever-growing complexities of finance and taxation, the rate of growth is phenomenal. Even so, the rate of growth of this glossary is still greater. The third edition covered 814 pages; this fourth contains well over a thousand. At the same time it is so well produced that the volume is clear without being bulky or heavy.

Mr Gunston is engaged in translating from German to English a mass of German financial material, and

he gives to the reader the benefit of his experience in this developing field. The book is in the highest degree practical. But it is also intellectually stimulating to see how the authors have tackled some of the more recondite German phrases.

### British Trade in the Common Market

by Colin Clark. (Stevens & Sons Ltd, London. 18s6d net.)

This work has been sponsored by the Aims of Industry group and is written by a leading economic statistician with the help of a research team. It deals with the main problems of British entry, in particular as they apply to British industry, although the positions and problems of British agriculture and the Commonwealth are clearly discussed.

The author foresees extensive cartelization of industry in Western Europe but hopes that the 'interbreeding of a strong strain of British empiricism with continental legalism will eventually produce a healthy offspring'. There is a useful account of the constitition of the E.E.C. and social and company legislation. The book is very reasonably priced and although it would not be this reviewer's first recommendation to the man in the street seeking guidance on the subject, he would certainly learn a good deal from Professor Clark and his collaborators.

# Principles of the Law of Damages

by Harry Street, Ll.M., Ph.D. (Sweet & Maxwell Ltd, London. £3 3s net.)

This new book, by a professor of English law who is also a solicitor, examines the problem of the assessment of damages, and the principles which have grown up from the very large number of cases on the topic. The author hopes his book will make some contribution to the development of the general principles and of means of assessing damages 'in as scientific a manner as the nature of the subjectmatter permits'. We feel sure it will. The accountant concerned with tax problems will find much to interest him. He will naturally be interested in what the book says about computation of loss of earnings, where the author refers somewhat sourly to an' anonymous 'university don who can collect easy money from television appearances' and therefore 'prefers to while away his time in the local inn'.

The observations about income tax principles should be read with some caution, however. The author uses the term 'capital' as characterizing lump-sum payments which are immune from Schedule E; but in relation to Schedule E the distinction between capital and revenue has no meaning. The question is whether the lump sum is an emolument of the employment or not. Some of the phraseology in the book shows a somewhat surprising looseness of language; for example, on page 96 (our italics): 'Where a vendor is in breach of his contract to sell property, and the purchaser buys, unknown to the

vendor, in pursuance of his business of redeveloping property the damages for breach of contract are not taxable because they will be a taxable receipt.'

# SHORTER NOTICES

'TAXATION' MANUAL, compiled under the direction of Percy F. Hughes. (Taxation Publishing Co Ltd, London. 30s net.) Few readers will be unfamiliar with this well-known work and this tenth edition will doubtless find new adherents among practitioners and students alike. It has been completely revised to incorporate changes in the law and practice up to and including the 1961 Finance Act; the last edition appeared in 1958. As in earlier editions there is an agreeable and concise but clear blending of legal exposition and model computations. The work is undoubtedly good value at its current modest price. Taxation in Western Europe 1962. Federation of British Industries. 30s net.) This is the sixth edition of the work which the F.B.I. first produced in 1957, a fact which provides eloquent testimony to its usefulness. In view of the great interest in this work the book is to be published regularly in June each year. The present edition contains details of the changes in Danish company taxation as well as chapters on the Eirean and Greek fiscal systems.

# RECENT PUBLICATIONS

ELECTRONIC DATA PROCESSING EQUIPMENT AND METHODS, by Alban and Lamb, the Financial Editors of *The Local Government Chronicle*. 20 pp. 12×9. Paper covers. 3s 6d net. Charles Knight & Co Ltd, London.

Cost Accounting, A Managerial Emphasis, by Charles T. Horngren, Ph.D., C.P.A. xxi+801 pp. 9½×6½. 90s net. Prentice-Hall International Inc., 28 Welbeck Street, London W1.

WHILLANS'S TAX TABLES AND TAX RECKONER 1962-63, by George Whillans, F.I.B., F.T.I.I., F.R.ECON.SOC. 10 pp. 10×6½. Paper covers. 1-5 copies 5s 6d each, 6-24 copies 5s each, 25 or more copies 4s 6d each. Postage free. Butterworth & Co (Publishers) Ltd, London.

CORPORATE DIVIDEND TRENDS DURING THE PERIOD OF INDUSTRIAL GROWTH AND PLANNED ECONOMIC DEVELOPMENT IN INDIA (1947–57), by Raj K. Nigam, Ph.D.(ECON.) (LONDON), and N. D. Joshi, M.COM. iii+116 pp. 9½×6½, 175 6d. Research & Statistics Division, Department of Company Law Administration, Ministry of Commerce and Industry, Government of India, New Delhi.

THE RULE AGAINST PERPETUITIES, second edition, by J. H. C. Morris, D.C.L., and W. Barton Leach, Ll.B. li+352 pp. 9×6. £3 10s net (U.K. only). Stevens & Sons Ltd, London.

Spicer & Pegler's Practical Auditing, by Walter W. Bigg, F.C.A. Indian edition, by S. V. Ghatalia, B.Com., F.S.A.A., F.C.A. xxviii+735 pp. 9×6. Rs20. Allied Publishers Private Ltd, Bombay 1.

COMMERCIAL LAW, by Gordon J. Borrie, LL.M. xxxvi+248 pp. 9×6. 37s 6d net. Postage 1s 8d extra. Butterworth & Co (Publishers) Ltd, London.

ECONOMIC ASPECTS OF INDUSTRY AND COMMERCE, second edition, by J. L. Hanson, M.A., M.ED., PH.D. xvi+369 pp. 9×5½. 25s net. MacDonald & Evans Ltd, London.

JUTA'S SOUTH AFRICAN INCOME TAX SERVICE: LEGISLATION SERVICE. Editor, Dr A. S. Silke, M.COM., PH.D., C.A., A.S.A.A. 10×8. £8 Juta & Co Ltd, South Africa. Distributed in the United Kingdom by Sweet & Maxwell Ltd, London.

# NEDDY'S GREAT LOSS

# Industrialist Praises Work of Accountants

That no chartered accountant was a member of the National Economic Development Council was a great loss, said Viscount Caldecote, D.Sc., M.A., M.I. (MECH).E., M.I.E.E., A.F.R.Ae.S., at the annual dinner of the Bristol and West of England Society of Chartered Accountants, held at the Grand Hotel, Bristol, on Thursday of last week.

Lord Caldecote, who was proposing the toast of 'The Institute of Chartered Accountants in England and Wales', added:

'For my experience of your great profession is that you, and you alone, can bring out the facts from an appalling nuddle of woolly thinking.'

Lord Caldecote, who is deputy managing director of the British Aircraft Corporation Ltd, said engineers and chartered accountants always based their facts on agures. In this field of figures they had much in common, 'particularly in this age of computers and all those other gimmicks'.

### Common Problems

Commenting that it was unnerving for a 'humble engineer to stand before you', Lord Caldecote went on to say:

'No longer, I think, are engineers blinded by balance sheets nor chartered accountants "swindled" by science. I'hough we may understand each other a great deal better than we used to, I doubt very much if the outside world understands either of us.'

Both professions, he thought, had two problems. 'We both work with figures; we rely on them for our profession. But I wonder if we take enough trouble to explain them to laymen.'

Secondly, they had a reputation for being hardboiled and lacking in human sympathy.

'I do believe', he went on, 'some conscious effort is needed to explain these figures more clearly to the laymen so they may understand what they are about. Too often we couch our figures in some mysterious jargon.

'That we are hard-boiled, lacking in human sympathy, I utterly repudiate for both your profession and mine.
'Nevertheless, I am afraid it is an opinion widely held and

'Nevertheless, I am afraid it is an opinion widely held and I feel there is a public relations job to be done in that respect.'

The aircraft industry, said Lord Caldecote, had plenty of uncertainty. Not induced uncertainty from outside, but the inherent uncertainty experienced in any industry of rapid change. Chartered accountants, too, had this problem of rapid change. It was true to say that the more complex the industry, the more complex the problem — the more was the need for the clear thinking of the accountancy profession.

# The Institute's New Secretaries

Replying to the toast, Mr P. F. Carpenter, F.C.A., President of the Institute of Chartered Accountants in England and Wales, said that during his year of office the President tried to visit each district society and 'it is a great pleasure for him to do so'. It enabled him



At the dinner in Bristol (left to right): Mr Martin McLaren, M.P., Mr Brian Davidson; Alderman L. K. Stevenson, J.P., Lord Mayor of Bristol; Viscount Caldecote, D.S.C., M.A., M.I.MECH.E., M.I.E.E., A.F.R.AE.S.; Mr T. B. Pritchard, F.C.A., President of the Society; Mr P. F. Carpenter, F.C.A., President of the Institute; Mr S. W. Evans, O.B.E., J.P., Sheriff of Bristol.

to meet members and students, and to thank the local committees for all the work they did on behalf of the Institute.

Mr Carpenter said October 31st had been rather a sad day, for then Mr Alan MacIver, the Institute's Secretary for many years, had retired. But on November 1st, they welcomed their new Joint Secretaries, Mr C. A. Evan-Jones, M.B.E., who was present at the Bristol dinner, and Mr F. M. Wilkinson, who was on Institute business in Amsterdam.

'I think we are fortunate in having these two gentlemen as our Joint Secretaries', he said.

## Using the Universities

Mr Carpenter said that recently he attended the International Congress in New York and he had been impressed by the high regard with which the profession was held there. He thought they had the edge on the profession in Britain in the part the universities played in the training of accountants.

But he paid tribute to the work being done in this respect at Bristol and other universities, adding, 'I am sure that in the seven new universities being set up there will be further expansion in our work'.

As an Institute, said Mr Carpenter, they did their best to assist in problems facing the profession today.

'We do always endeavour to be constructive, not to propose change for the sake of having change, but on the other hand always to be prepared to examine new ideas in an objective way.'

Mr Carpenter told the 240 members and guests

present, that during his year of office he was endeavouring to see if they could make progress in domestic matters designed to assist members both in practice and industry; he referred to the educational programme, the small practitioner inquiry and endeavours to foster research.

It was essential, he said, that professional accountants should maintain their independent view.

### **Bristol's Vitality**

Mr Martin McLaren, M.P. for Bristol North West, proposing the toast of 'The City and County of Bristol', said that visits by corporation delegations abroad were a sign of the vitality of the present Bristol, showing its willingness to learn from others. There was, he said, every kind of progress to be found in the city and he instanced the interest being shown by the corporation in the Theatre Royal. This he believed would lead to much more interest in all the arts.

The Lord Mayor of Bristol, Alderman Leonard Stevenson, J.P., replying, commented on changes that had taken place since the start of accountancy. Taxation, for instance, had become so complicated that 'if you have any income at all you have to have accountants – and particularly in business.'

Mr T. B. Pritchard, F.C.A., President of the Society, proposed the toast 'Our Guests', to which Mr Brian Davidson, director, Bristol Aeroplane Co Ltd, and business director, Bristol Siddeley Engines Ltd, responded.

# A DUTY OF THE PROFESSIONS

# President's Remarks at Brighton Dinner

Proposing the toast of "The Institute of Chartered Accountants in England and Wales' at a dinner in Brighton of the South Eastern Society of Chartered Accountants on November 2nd, Sir Milner Holland, C.B.E., Q.C., B.C.L., M.A., said that the accountancy profession was one that all would acknowledge as performing a vital function in a complex society which became more complex every year.

The accountant, he said, guided the citizen through the many difficulties which beset him in the field of income tax, and in many other fields as well. The natural result of the high standards the profession had set for itself was that many members of the profession were found in positions of high responsibility – this was so in the United Kingdom more than in any other country of the world.

Sir Milner paid tribute to the Institute as a body which afforded to its members guidance not only in the maintenance of high standards of efficiency, but high standards of professional conduct as well. He mentioned, too, the great activity, liveliness and industry of the South Eastern Society, referring to a number of meetings which had been held during the year.

Described by Sir Milner as 'an extremely popular and able member of the Institute', Mr Percy F.

Carpenter, F.C.A., President of the Institute, responded to the toast.

One of the pleasant features of a President's year of office, he said, was to be able to visit the district societies. Particularly pleasant, said Mr Carpenter, had been his meeting with the South Eastern Society's students that afternoon, and he was glad to see a number of them present at the dinner. He congratulated the officers and members who did so much for the Society, saying that he was filled with admiration at the way interest in the Society's activities was maintained throughout a very large area.

"The public image of the chartered accountant', the President continued, 'stands as high as it ever has done, and that image will only stay at that level through the conscious efforts of our members.' He added that the Council of the Institute tried to do all it could to encourage members to give good and even better service to clients.

The President said that the Institute kept a very close watch on legislation, and made representations to see that the Finance Act clauses were as intelligible as they could be – and these representations were generally well received.

Thanking Sir Milner for his very kind remarks about the profession, Mr Carpenter said he thought that not

only the accountancy profession, but all the professions, had a duty to the country to maintain their high standards. It was apparent from the newspapers, he suggested, that standards today were not generally improving, and it was the duty of the professions to try to improve these standards.

Proposing the toast of 'Our Guests', the President of the South Eastern Society, Mr A. D. Langridge, F.C.A., specially welcomed those who had travelled long distances to be present. Responding, Mr Francis F. Haddock, T.D., President of the Sussex Law Society, said that it was obvious from the toast list that there were very close ties between the legal and the accountancy professions.

In an amusing speech Mr Haddock recalled that his own accountants did a 'wonderful balancing act' with his accounts. He thanked the hosts for their very generous hospitality, and joked: 'We guests do hope you can afford it. We know how poor you must be from the trifling fees that you charge!'

# Irish Institute's Dinner in Belfast

Mr R. E. McClure, M.B.E., F.C.A., President of The Institute of Chartered Accountants in Ireland, presided at the annual dinner of the Institute held at The Grand

Central Hotel, Belfast, on October 25th.
Replying to the toast of 'The Institute of Chartered Accountants in Ireland', proposed by the Rt Hon. Mr W. B. Maginess, Q.C., LL.D., M.P., the Attorney-General, Mr McClure, said that the accountant of today had departed from the role of auditing historical accounts from past records and had now become the general practitioner' of the business world to whom business men brought their worries and troubles. Chartered accountants, he said, must become less concerned with the profits of the past and more concerned with the prophecy of the future.

There were suggestions being made, Mr McClure, continued, that members of the profession should amalgamate their practices into smaller units. This ould not please everyone as it would mean a lessening personal contact with clients. There was also the ggestion that they should have some form of conultative service for members such as that in the legal hd medical professions.

### The Company

he toast of 'The Guests' was proposed by Mr F. O. F. Alden, F.C.A., Vice-President of the Institute, and the Lord Mayor of Belfast, Alderman M. K. Wallace, nd Mr T. J. Healy, President of the Belfast Insurance nstitute, replied.

Among those present at the dinner were:

Mr Patrick Bourke (President, The Institute of Bankers Ireland); Mr Percy F. Carpenter, F.C.A. (President, The institute of Chartered Accountants in England and Wales); Ir J. Edwards, O.B.E. (Registrar of Companies, Northern eland); Mr W. E. Harrison, F.C.W.A. (a Vice-President, the Institute of Cost and Works Accountants); Mr W. J. efferson (President, The Incorporated Law Society of Northern Ireland); Mr T. J. Magee (President, Belfast Chamber of Trade); Mr L. N. Mathers, B.A. (Chief Inspector of Taxes (Northern Ireland Branch)); Mr G. G. Overend (President, The Incorporated Law Society of Ireland); Mr A. J. Robinson (President, Belfast Chamber of Commerce); Mr Edgar Spencer, F.A.C.C.A. (President, The Association of Certified and Corporate Accountants); Mr J. C. Stewart, C.A. (President, The Institute of Chartered Accountants of Scotland); Mr H. C. Treffers (President, The Nederlands Instituut van Accountants); and Mr Philip R. Walker (President, Dublin Chamber of Commerce).

# Residential Conference

The second residential conference of the Irish Institute was held at The Slieve Donard Hotel, Newcastle, Co. Down, from October 26th to 28th. Papers presented were: "The future role of the professional accountant', by Mr Thomas Kenny, F.C.A.; 'Methods and procedure of accounting in the Netherlands', by Mr H. Gerritsen, honorary secretary, Nederlands Instituut van Accountants: 'The chartered accountant and industry decline or renaissance?', by Mr William Murray, M.A., B.COM., C.A., and Mr D. S. A. Carroll, A.C.A.

Mr Kenny, in his paper, said that the prerequisite for entry into the profession should be an ability for logical thought and not merely a skill at working with figures. In a reference to the European Common Market, he said students should have a working knowledge of at least two continental languages and advocated the need for some instruction on the general

laws applicable to companies in Europe.

Specific areas where accountants could contribute were given by Mr William Murray in his paper. Accountants had the qualifications to play a larger part in developing new and appropriate means of helping control public expenditure, especially where the form and presentation of estimates and exchequer accounts were concerned. He also said that accountants could do a great deal more in assisting the farming community to make the most of their opportunities and there was also ample scope in rendering assistance to management in transport and building sectors. The Institute, declared Mr Murray, was at the cross-roads as a leading professional body. It must recognize the revolution in administrative theory which was taking place and that there was a great need for more cooperation between the Institute and the universities. Mr D. S. Carroll also addressed the conference on this subject after which there were group discussions.

# SCOTTISH CHARTERED ACCOUNTANTS' DINNER IN LONDON

The forty-fifth annual dinner of the Association of Scottish Chartered Accountants in London was held at the Savoy Hotel, last Monday, with Mr T. G. B. Matheson, c.A., Convenor of the London Local Committee of the Scottish Institute and Association Chairman presiding. The dinner began with pipers of the London Scottish playing in members and guests. Then, of course, there was the traditional piping in of the haggis.

### The Growth of the Institute

Sir John Senter, Q.C., proposed the toast of "The Institute of Chartered Accountants of Scotland'. He traced the growth of the Institute in Scotland from the mid-nineteenth century, through the period when professional advertising was in vogue and to the growth in its work and membership which was aided by two world wars.

Sir John thought that representatives of industry would agree that the hard core of the profession remained in professional practice and through them professional standards were engendered and established.

Two of the many extensions of the accountant's activities were in the fields of costing and taxation. 'Of costing I know nothing. Of taxation I increasingly realize I know practically nothing', he told an amused audience.

Concluding, he remarked that judgment was a difficult and interesting question and one of the conundrums of life was how far judgment was something innate which could not be acquired, or was something which could be improved with training and experience.

He had the greatest respect for the Institute for the work it had done and the standards set in establishing experience and training. When the European Congress of Accountants meet in Edinburgh next year under the Institute's auspices he was sure it would be a landmark and that the Institute's most important contribution to it would be those qualities of experience, training and standards.

Replying to the toast, Mr James C. Stewart, c.A., President of the Scottish Institute, pointing out that it was Guy Fawkes night, recalled that a distinguished predecessor of his with the same name came south to London in 1603.

Within two years he had created such feeling in the mind of a certain section of the populace that they attempted to blow up the Houses of Parliament into the air or the Thames. The curious thing was that the House could have been expected to be occupied by Englishmen, he said, amid laughter. He drew the

conclusion that the conspirators were blowing up the Englishmen to make room for more Scotsmen!

## Thinking Ahead

Mr Stewart went on to observe that 'in 1494 – two years after Columbus discovered America – an Italian published a book on which accountants still claim to found almost the whole of their profession – the theory of double-entry book-keeping'. 'It's time we began to think on more modern lines than that,' he added.

At the Institute's Summer School this year a member delivered a paper which brought some fresh air into 'this business of "What are accountants trying to do?".' The speaker was accused afterwards, said Mr Stewart, of having advocated abolition of the balance sheet altogether. 'Nevertheless I bring up this merely to show that at least after all these years The Institute of Chartered Accountants of Scotland is still producing people who can think ahead.'

Proposing the toast of 'Our Guests', Mr Matheson said he particularly welcomed Sir John and Mr R. E. McClure, M.B.E., F.C.A., President of the Irish Institute. Mr McClure had come to the dinner almost as soon as he stepped off a plane from Amsterdam.

### Branch of Irish Institute in London

Replying to the toast, Mr McClure delighted his audience by teasing them about the Scotsman's traditional meanness. He had an idea that they rather gloried in that reputation!

He recalled that last week the Irish Institute entertained in Belfast the Scottish President and Secretary at the Institute's annual dinner. Then he exhorted guests from industry, trade and commerce to take counsel with their accountants when making important decisions.

'Today a number of us find ourselves faced with the inroads of the professional management consultant', said Mr McClure. 'He can make inroads perhap because of his freedom to advertise and solicit business All too often the client is over-persuaded by the ros picture which he paints but I think if we can educat our clients properly there is no need for us to be fearful.'

Mr McClure announced that very shortly a London association of the Irish Institute was to be formed 'We are taking a small leaf out of your book', he said 'and we hope at some future date that through the new body we may be able to repay some of your hospitality.'

The dinner ended with members and guests singing 'Auld Lang Syne'.

# JOHN FOORD & COMPANY

56 VICTORIA STREET, LONDON SWI

Telephone: Victoria 2002 (3 lines)

# REVALUATION OF ASSETS

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

# Notes and Notices

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES Audits of Building Societies

The Council has approved a revised statement on Audits of Building Societies to replace the statement issued in December 1960. This revised statement, which will be issued with the next supplement to the Members' Handbook, takes account of the consolidation of the Building Societies Act, 1960, and earlier Acts into the Building Societies Act, 1962.

A copy is being sent to each member (or firm in which members are partners) known to the Institute to be auditor(s) of a building society. A copy will be supplied without charge on application by any other

auditor of a building society.

Copies in booklet form are also available for purchase on application to the offices of the Institute, Moorgate Place, London EC2, at the price of 5s per copy, post free. (Remittances must accompany orders.)

### PROFESSIONAL NOTICES

MESSRS BUTLER, VINEY & CHILDS, Chartered Accountants, and Messrs Thomson, Gregory, Thol. & Co, Chartered Accountants, of 60 St Paul's Churchyard, London EC4, announce that Mr L. E. Newson, A.C.A., who has been on the staff for many years, and Mr G. H. HOSKYNS, A.C.A., have been admitted to partnership as from November 1st, 1962. Both practices will continue to be carried on in the same names and at the same address.

Messrs Maurice E. Bulley & Co, of 30 Midgate, Peterborough, announce that as from November 1st, 1962, their branch at Spalding will be carried on under that name and not under the style of AITKEN, BULLEY & Co as hitherto.

Messrs Cooper Brothers & Co and Coopers & Lybrand and K. G. Jensen, Palle Hansen, A. C. Velling, B. Kjaersgaard and Poul Carlsen of Nørre Voldgade 11, Copenhagen K, announce that he Danish firm of Coopers & Lybrand A/S with an office in Copenhagen has been formed.

Messrs Fawley Judge & Easton, Chartered Accountants, of I Parliament Street, Hull, announce that as from November 1st, 1962, they are taking into partnership Mr Peter Dobson, F.C.A., who has been issociated with the firm for many years. The style of the firm remains unchanged.

Messrs Lawrence S. Fenton & Co, Chartered Accountants, announce that as from November 3rd, 1962, they have moved their offices to Kirkman House, 54A Tottenham Court Road, London WI.

MR STANLEY C. JOHNSON, Certified Accountant, of 22 Worcester Street, Stourbridge, Worcs, announces hat as from November 1st, 1962, he has taken into partnership his son, Mr David John Crump Johnson, A.C.A. The practice will continue to be carried on inder the name of Stanley C. Johnson & Son at the above address.

Messrs Russell & Mason, Chartered Accountants, of 139 Temple Chambers, Temple Avenue, London EC4, announce that as from November 1st, 1962, they have taken into partnership Mr P. L. GITTINS, A.C.A., who has been with them for a number of years. The name of the firm remains unchanged.

MESSRS SABA & Co announce that as from October 1st, 1962, they have established a branch office in Nicosia, Cyprus, at Homer Avenue 2A: telephone 75434, cable address Sabaco, Nicosia. The office is managed by their regional partner, Mr Phidias C. Kypris, Ll.B.(LOND.), A.A.C.C.A.

Messrs Thorne, Lancaster & Co, Chartered Accountants, of Hillgate House, 24 Old Bailey, London EC4, announce that as from November 1st, 1962, they have taken into partnership Mr C. R. Cann, a.C.A., and Mr G. L. Hudson, a.C.A., who were previously members of their staff. The name of the firm remains unchanged.

Messrs Woolger, Hennell, Scott-Mitchell & Co, Chartered Accountants, of London and Glasgow, announce that, in conjunction with Messrs Wardhaugh & McVean, Chartered Accountants, of Glasgow, they have formed a new firm styled Woolger, HENNELL, WARDHAUGH & Co to carry on their Glasgow practice, as from November 1st, 1962. The address of the new firm is Ashfield House, 402 Sauchiehall Street, Glasgow C2. Telephone: Douglas 2438. The partners are Messrs A. R. Brackenridge, F.C.A., K. W. S. CLARK, F.C.A., and P. R. TAYLOR, F.C.A., resident in London and those resident in Glasgow are Messrs W. H. Marshall, C.A., J. G. McVean, M.B.E. (MIL.), T.D., M.A., LL.B., C.A., and W. D. B. CAMERON, C.A. The name and address of the London firm remains unchanged. Mr D. B. T. LATTEY, M.A., A.C.A., was admitted as a partner in London on November 1st, 1962.

### **Appointments**

Mr E. E. Binns, F.C.A., has been appointed joint managing director of Associated Dairies and Farm Stores Ltd.

Mr W. H. Ferrar, F.S.A.A., has been appointed an alternate director of De Beers Industrial Corporation.

Mr David Horn, F.C.A., secretary and chief accountant of Argus Press Ltd, has been appointed a director of the company.

Mr E. W. Lumb, F.C.A., has been appointed a director of Blakey's Boot Protectors Ltd.

Mr J. C. Owen, F.C.A., has been appointed to the board of Eva Brothers Ltd, retaining his appointment as group accountant to Eva Industries Ltd.

Sir Julian Pode, F.C.A., chairman of the South Wales Committee of Lloyds Bank Ltd, has been elected to the main board of the Bank.

Mr A. Young, M.A., C.A., has been appointed secretary of Storey Brothers & Co Ltd, in succession to Mr L. R. Andrews, F.C.A.

# NEW ZEALAND TRADE COMMITTEE Mr Henry Benson, C.B.E., F.C.A., appointed London Chairman

Two committees, in London and New Zealand respectively, have been appointed to investigate a number of matters relating to the export of meat, dairy produce and fruit from New Zealand. Mr Henry Benson, C.B.E., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales, will serve as chairman of the London committee and the other members are Sir Austin Anderson, past chairman, Orient Line, and a director of Westminster Bank Ltd; Mr F. D. Arney, C.B.E., past general manager, Port of Bristol Authority, and Mr A. R. Frethey, director and retiring London manager, Bank of New Zealand.

Appointed by the three statutory boards which control the export of meat, dairy produce and fruit from New Zealand, together with the four shipping companies which have a special interest in New Zealand trade, the committees' terms of reference include reviewing the possibility of introducing economies in the shipping service; improving the procedures of both exporters and importers, and economies in methods of loading and discharging cargoes.

### COMPANY INVESTIGATION

Mr Richard M. Honeybone, F.C.A., a chief accountant, Board of Trade, has been appointed under section 165 (b) of the Companies Act as inspector to investigate the affairs of Milletts Holdings (St Pauls) Ltd.

# B.O.A.C. INQUIRY

Last week we stated that we understood Messrs Peat, Marwick, Mitchell & Co to be the firm which was conducting the inquiry into the financial affairs of the British Overseas Airways Corporation, although at that time the firm had not been officially identified.

In the course of the debate on the second reading of the Air Corporations Bill last Tuesday, the Minister of Aviation said that he had invited Mr John Corbett, F.C.A., to investigate B.O.A.C.'s position and prospects. The Minister described Mr Corbett as 'an accountant of the highest personal standing, and a senior partner in one of our leading firms which has done valuable work for the Government'.

Mr Corbett's report is expected to be presented to the Minister next spring.

# EFFECTS OF AUTOMATION

Mr Desmond B. Hirshfield, F.C.A., director of the Trades Union Unit Trust and a partner in the firm of Hesketh, Hardy, Hirshfield & Co, Chartered Accountants, of London, is a member of the council of a new foundation established to promote the study of the human effects of automation.

# ASSISTANT OFFICIAL RECEIVERS APPOINTMENTS

The Board of Trade have announced that the following appointments took effect from November 1st, 1962:
Mr James Michael Buttimer to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Brighton, Eastbourne, Hastings and Tunbridge Wells.

Mr Ernest Arthur Ashcroft to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Bristol, Bath, Bridgwater, Cheltenham, Frome, Gloucester, Swindon and Wells and the Bankruptcy District of the County Courts of Exeter, Barnstaple and Taunton.

Mr Frank Augustus Lanaway to be an Assistant Official Receiver for the Bankruptcy District of the County Courts of Nottingham, Boston, Burton-on-Trent, Derby, Leicester, Lincoln and Horncastle.

# GRADUATED NATIONAL INSURANCE

The provisions for the collection of graduated national insurance contributions are based on the regulations governing the collection of income tax under the P.A.Y.E. system, and new regulations¹ have now been made in consequence of the recent consolidation of the P.A.Y.E. regulations. They contain one new provision which concerns the power of collectors of taxes to certify amounts of unpaid graduated contributions in the same way as unpaid P.A.Y.E. income tax. The regulations came into force on November 1st, 1962.

# JERSEY CHARTERED ACCOUNTANTS' DINNER

The annual dinner of the Jersey Association of Practising Chartered Accountants was held at the Hotel L'Horizon, Jersey, last Saturday. Mr W. T. Scarborough, F.C.A., was in the chair and the principal guests were: The Bailiff of Jersey, Mr R. H. Le Masurier, D.S.C.; The President of the Institute, Mr P. F. Carpenter, F.C.A.; Mr J. W. G. Cocke, T.D., M.A., F.C.A., The Secretary of the London and District Society of Chartered Accountants; and Mr G. H. Hamon, The Jersey Comptroller of Income Tax.

Mr Carpenter replied to the toast of 'The Institute and President', which was proposed by the chairman, and Mr Cocke and Mr Hamon replied to the toast of 'The Guests', proposed by Mr L. A. Picot, F.C.A.

# SOUTHEND-ON-SEA CHARTERED ACCOUNTANTS' GROUP

The annual general meeting of the Southend-on-Sea Chartered Accountants' Group was held at the West Cliff Hotel, Westcliff-on-Sea, on October 25th. The chairman reported a satisfactory year and that membership now numbered eighty-two. Satisfactory reports were received from the treasurer and the secretary, and the secretary reported that the annual dinner of the Group has been arranged for Thursday, December 6th at the Middleton Hotel, Southend-on-Sea. The following officers were elected for the ensuing year:

Chairman: Mr S. Porter, F.C.A.
Vice-Chairman: Mr L. W. Free, F.C.A.
Hon. Secretary: Mr M. A. Wren, A.C.A., 10 Warrior
Square, Southend-on-Sea.
Treasurer: Mr H. E. Hard, F.C.A.
Press Officer: Mr E. W. Matthams, F.C.A.
Assistant Press Officer: Mr F. A. Waller, A.C.A.
Committee: Messrs L. M. Keen, F.C.A., and G.
Cunningham, A.C.A.

<sup>&</sup>lt;sup>1</sup>The National Insurance (Collection of Graduate Contributions) Amendment Regulations 1962, S.I. No. 2374, H.M.S.O. Price 8d.

# THE BRITISH COMPUTER SOCIETY New President

Mr R. L. Michaelson, F.I.A., F.I.S., controller of administration of Elliott Automation Ltd, is the new President of The British Computer Society in succession to Mr D. W. Hooper, M.A., F.C.A. Mr Michaelson, who joined the Society on its formation in 1957, has taken an active part in many of its activities and last year served as chairman of the executive committee.

## **Annual Report**

The fifth annual report of the Society for the year ended April 30th, 1962, shows that membership continues to rise and now numbers 2,500 compared with 2,240 in the previous year. An event of note during the year, is the part which the Society took in the organization of the 1962 International Federation of Information Processing Congress held in Munich, by establishing a British programme committee to give assistance to the I.F.I.P. programme committee. The report goes on to mention that the interests of analogue computer users of the Society have been met by the formation of an Analogue Computing Committee which is to co-ordinate its work with that of the International Association for Analogue Computing.

### ANNUAL REPORTS ON VIEW

The annual reports and accounts of forty-five public companies and societies are on display from this week until December 1st at an exhibition at the Design Centre, London, organized by the Council of Industrial Design in association with the British Federation of Master Printers.

The forty-five reports have been chosen on the basis of excellence in graphic design and presentation coupled with a high standard of printing. Two of the reports on show are from companies that have won one of *The Accountant* Annual Awards in past years—Harveys of Bristol Ltd, and The Prestige Group Ltd.

### **GUIDE TO SHARE OWNERSHIP**

The first in a series of booklets designed to make the channels of investment known to the public has been issued by the Wider Share Ownership Council of which Mr Maurice Macmillan, M.P., is chairman. Entitled, Seven Ways to Invest, the booklet sets out the seven different methods of obtaining shares—through a stockbroker, bank manager, investment trust, unit trust, investment club, endowment assurance and employee-shareholding schemes.

Two appendices to the booklet set out six specific company schemes for employee shareholding, all widely different, but each of special merit. Appendix A comprises four such schemes operating in the United Kingdom – those of Aims of Industry, Imperial

Chemical Industries, Associated Electrical Industries and Rugby Portland Cement. Appendix B gives details of American thrift plans operating in the United States, and the Thomson Newspapers scheme for an employee investment company in Canada.

Copies of the booklet are obtainable free of charge from the Wider Share Ownership Council, 4 Angel

Court, London EC4.

# LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

# **Common Market Meetings**

The second in the series of three meetings on the European Common Market arranged by the Committee of The London and District Society of Chartered Accountants will be held next Tuesday at 5.30 p.m. at The Chartered Insurance Institute, 20 Aldermanbury (near Guildhall), when The Hon. Arthur Maxwell Stamp, director of Philip Hill Higginson, Erlangers Ltd, will speak on 'The Common Market's challenge to the City.'

The final meeting in the series, also at The Chartered Insurance Institute, will be held at 5.30 p.m. on Thursday, December 6th (not Tuesday, December 4th as previously announced), when Mr J. Kraayenhof, Past President of the Netherlands Institute of Accountants will speak on "The practice and the profession of accountancy within the Common Market'. Both addresses will last for approximately half an hour and about the same amount of time will be devoted to questions and discussion.

### CITY DISCUSSION GROUP

The next meeting of the Chartered Accountants' City Discussion Group will be held at the Tiger Tavern, I Tower Hill, London EC3, on Wednesday next, November 14th at 6 for 6.30 p.m., when discussion will be opened by Mr Geoffrey Stevens, F.C.A., M.P., on the Government's financial policy.

### MANAGEMENT ACCOUNTING CONFERENCE

The Liverpool Society of Chartered Accountants, in co-operation with The Merseyside Productivity Association, is holding a three-day residential management accounting conference at The Blossoms Hotel, Chester, from November 30th to December 2nd. The conference has been organized so that accountants and business executives may meet together to discuss current means whereby the service rendered by accountants can be further developed and used to increase efficiency and reduce costs.

Those attending the conference will be divided into syndicates which will meet informally after each lecture to discuss the subject-matter and formulate questions which the lecturer will answer at a further session.

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The address of welcome will be given by the President of the Liverpool Society of Chartered Accountants, Mr S. Morris, F.C.A., who will also preside throughout the conference. Three papers will be presented: 'Application of a computer in industry', by Mr A. J. Platt, F.C.A., Pilkington Bros Ltd, 'Practical aspects of storekeeping', by Mr A. Simms, divisional purchasing and stores controller, National Coal Board, and 'Raising money', by Mr A. R. English, F.C.A., general manager, Industrial and Commercial Finance Corporation Ltd.

Mr A. V. Widdowson, chairman of The Merseyside Productivity Association, is to deliver some concluding

remarks at the end of the conference.

Application forms, which should be returned not later than November 19th, are available from the conference secretary, Mr G. L. Clegg, c/o The Norwest Construction Co Ltd, Liverpool 21.

# THE INSTITUTE OF INTERNAL AUDITORS London Chapter

The next meeting of the London Chapter of The Institute of Internal Auditors will be held on Wednesday next, at The Kingsley Hotel, Bloomsbury Way, London WCI, at 12.30 p.m. The speaker will be Mr J. D. Russell, M.A., F.C.A., partner, Binder, Hamlyn & Co, and his subject will be 'Fraud and defalcation'.

### STAMP MEMORIAL LECTURE

A Stamp Memorial Lecture on 'Some thoughts on central banking', by The Rt Hon. Lord Cobbold, will be given on Tuesday next, at 5.30 p.m., at the University of London, Senate House (entrance from Russell Square or Malet Street, WC1).

The chair will be taken by Sir Frank Lee, G.C.M.G., K.C.B., Master of Corpus Christi College, Cambridge. The lecture is addressed to students of the University and to others interested in the subject. Admission is free, without ticket.

### OFFICE MECHANIZATION CONFERENCE

'Mechanization and the model office' will be the title of a one-day conference to be held on Saturday, November 17th, at the Solihull College of Further Education, Blossomfield Road, Solihull, Warwickshire.

The opening address of welcome and an outline of the subjects of the conference will be given by Alderman E. N. Hiley, M.B.E., Chairman of the Governors of the College. Addresses will include "The effect of office mechanization on commercial courses in further education," by Mr F. C. Thurling, B.A.(HONS.), A.C.I.S., Head of Commerce Department, Erith Technical College; "The A.B.C. of A.D.P.', by Mr A. Morris, M.A. (technical consultant, Addo Ltd); and

'Systems for the model office', by Mr R. C. Hurnell (director, Percy Jones (Twinlock) Ltd).

The closing address will be given by Mr A. J. Parkinson, M.A., Principal of the College, who will preside throughout the day.

# THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of The Chartered Accountant Students' Society of London will be held during next week:

Monday, 5.30 p.m., at the Institute, Moorgate Place, EC2: Lecture 'On being a personal adviser', by Mr E. Kenneth Wright, M.A., F.C.A. (a Vice-President of the Students' Society). Chairman: Mr Brian Manning, C.B.E., D.L., J.P., F.C.A. (a Vice-President of the Students' Society).

Society).

Tuesday, Visit to Ford's Motor Works (limited number).

Wednesday, 5.30 p.m., Lecture and demonstration of
National Accounting Machines (limited number).

Thursday, 5.15 p.m., at the Institute: Introductory course lecture on 'Company law', by Mr P. W. Medd, Barrister-at-law.

6.30 p.m., at the Institute: Debate with the Midland Bank on 'Decimalization of the currency'.

Friday, 5.15 p.m., at the Institute: Introductory course lectures on 'Audit practice and methods', by Mr W. K. Wells, B.A., F.C.A. (Hon. Treasurer of the Students' Society); and 'The law of banking', by Mr P. W. Medd, Barrister-at-law.

6.30 p.m., at Ilford: Lecture on 'The audit of mechanized accounts', by Mr H. O. H. Coulson, F.C.A.

The London Articled Clerk's Diary for 1963 may now be bought at the library (price 4s, by post 4s 6d).

# READING CHARTERED ACCOUNTANT STUDENTS

'Auditing – investigations for purchase or sale' was the subject of an address given by Mr R. S. Waldron, F.C.A., at a meeting of the Reading Branch of The Chartered Accountant Students' Society of London, held last Wednesday. Other meetings arranged for the 1962 session are:

November 22nd: 'Company accounts – amalgamations, absorptions and capital reconstruction schemes', by Mr B. Rose, F.C.A.

December 5th: 'The stock exchange and London money market', by Mr A. J. Whiteside, Barrister-at-law.

December 19th: 'Accounting for management', by Captain M. R. Aries, c.a.

All the above meetings will be held at The Great Western Hotel, Station Road, Reading, commencing at 7.15 p.m.; and refreshments will be available. Social functions organized by the Branch include a Christmas Dance to be held on December 13th, at The Grosvenor House Hotel, Caversham. The Branch honorary secretary is Mr B. S. Bush, 102 London Road, Reading.

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# ACCOUNTANT

ESTABLISHED 1874

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# Cash v. Earnings Basis

NE of the major problems that has faced accountants in public practice since 1939 has been the need to finance the inflationary element in uncollected fees and work in progress. This involves not only salaries and overheads which are reflected in work in progress or awaiting payment but provision for taxes. To the extent that any increase in outstanding fees includes the value of partners' time and a return on their capital, as well as the pure profit element, the Revenue automatically demand an increase in their collections of income tax and surtax where accounts are prepared on the earnings basis. In such cases, therefore, professional men find themselves in the position of having to finance not only an inflation in current asset values which provides no increase in real net yields; they also have to finance the Revenue's cash share of enhanced paper profits.

This situation is averted, however, by those practitioners who adopt the cash basis whereby accounts and the assessments based on them reflect only actual receipts, an arrangement both equitable and convenient and one long accepted by the Revenue without demur. The cash basis has the further advantage for the partners in an expanding practice that the incidence of tax on the profits from new business is deferred by the fact that such profits are not brought into account for tax until realized in cash. It will therefore be with some concern that the profession will learn that it faces a wind of change in the decision on November 9th in Wetton, Page & Co v. Attwooll. This case came before Mr Justice UNGOED-THOMAS in the Chancery Division in consequence of a decision by the Special Commissioners on appeal upholding assessments made under Schedule D on a firm of chartered accountants for the four years 1954-55 to 1957-58. These assessments had been made on the earnings basis for those years, whereas the firm had previously been assessed to tax on the cash basis, and indeed the Revenue had not challenged the use of the cash basis in the year following those in dispute.

In the absence of a detailed statement of the facts, it is too soon to weigh the factors which led the Revenue thus to blow hot and cold. It is clear, however, that the establishment as a principle of law of the Revenue's right to jump from the cash to an earnings basis at will, can only lead to the utmost confusion and uncertainty. Even those partnerships in which the members are required by the terms of their agreement to retain in the firm funds sufficient to meet their future liabilities to income tax and surtax, could find themselves in serious financial difficulties if suddenly

faced with Revenue demands based on fees uncollected or not even rendered.

More serious still is the possibility that the assessments over a period of years might exceed, perhaps substantially, the actual profits realized. Thus a debt created in a year treated on the earnings basis would attract no relief if subsequently proved bad in a year dealt with on the cash basis, while fees already taxed as earned could be taxed again when received. These possibilities appear to follow from the ratio of the decision in Wetton, Page & Co v. Attwooll. Mr Justice Ungoed-Thomas is reported to have said it was clear from the decided cases that his duty was to consider only the particular years before him and to decide whether for these years an earnings basis was the appropriate method to adopt. The emphasis thus laid on the character of income tax as an annual tax appears to reflect the dicta of LAWRENCE, L.J., in Attorney-General v. Metropolitan Water Board (6 A.T.C. 879; 13 T.C. 294). His lordship is reported to have continued with the statement that although two methods of assessment could not be adopted for any one tax year, there was nothing to prevent different methods of assessment being used for different years. The change from a cash basis to an earnings basis was justifiable; the subsequent reversion to a cash basis might be a matter for complaint but did not fall to be considered in the present case.

The authority for the latter observations evidently lies in the case of D. & G. R. Rankine v. C.I.R. (31 A.T.C. 20; 32 T.C. 520). This concerned a firm of civil and mining engineers where accounts had been prepared on a cash basis for calendar years and which was dissolved in July 1944. In the last few years of its existence additional fees were earned in respect of special valuations under the Coal Act of 1938 and the greater part of these fees were paid in the six months following dissolution. The inspector was acquainted with the position but assessments were agreed on the cash basis for 1942-43 and 1943-44. A subsequent attempt by the inspector to reassess those years on the earnings basis by means of additional assessments was rejected by the Court of Session on the grounds that the basis of assessment had been freely negotiated. We feel, however, that some doubt may have been shed on the ratio of this decision by the wide

interpretation of the inspector's powers of discovery favoured by the House of Lords in Cenlon Finance Co Ltd v. Ellwood (41 A.T.C. 11). Clearly the use of varying bases of assessment would lead to the result that aggregate assessments would not be in accordance with aggregate profits. A similar problem arose in Bombay Commissioner of Income Tax v. Ahmedabad New Cotton Mills Ltd (8 A.T.C. 575) where it was not sufficient to take the closing valuation of stock for the previous year if the method of ascertaining the current year's results required an alternative basis of valuation. Errors in stock valuation occur not infrequently and the normal practice appears to be to submit claims under section 66 of the Income Tax Act, 1952, for years found to have been over-assessed while accepting additional assessments under section 41 for years underassessed. Such a procedure is inappropriate, however, where no question arises of errors as such.

It was to be hoped that the introduction of section 32 of the Finance Act, 1960, had disposed of the anomalies latent in the cash basis where a cessation occurs, as shown by the Rankine case. In Wetton, Page & Co v. Attwooll the learned judge gave his decision in favour of the Revenue and it now seems that not only has the propriety of the cash basis not been confirmed by the Finance Act, 1960, but the whole question of its operation has been thrown once more into the melting-pot. To treat each year of assessment as entirely independent of the preceding and following years seems to us to be out of touch with reality. Admittedly at the hearing of the Wetton case before the Special Commissioners, the Revenue are reported to have stated that if the earnings basis for the year 1958-59 turned out to be lower than the cash basis, they would demand payment of tax on the lower basis. However reliance on concessions of this nature is clearly unsatisfactory. We feel the time has now come to give statutory force to the taxpayer's right to adhere to the cash basis, once adopted, while to meet the danger of any possible abuse it is suggested that a change to the earnings basi could be made at the instance of either the Revenue or the taxpayer, provided that written notice to that effect is given, say, twelve months before the commencement of the year of assess ment for which the new basis is to operate.

# Implementing Parker

HE report elsewhere in this issue of the November meeting of the Council of The Institute of Chartered Accountants in England and Wales contains a second statement on the recommendations (published in May of last year) of the Parker Committee set up in 1958 to consider the education and training of articled clerks. In its previous statement, in our issue of August 11th last, the Council dealt with exactly alf of the seventy recommendations made by the committee. Now it considers in further detail certain of these relating to the revised subjectnatter of, and eligibility for, the Institute's examinations and sets out in two appendices the yllabuses for the new Intermediate and Final examinations. A third appendix defines the eligibility of clerks for both the old and new examinations during the transitional period.

The subjects for both examinations are as envisaged by the Parker Committee and already ccepted, with only transpositions of certain papers between Parts I and II of the Final examination, by the Council. While, therefore, he general philosophy of the committee that xaminations should provide a test of practical ompetence and that specialization during the period of articles should be avoided is fully pheld, the proposed contents of the Advanced accounting III and General papers confirm that ven the basic complement of professional nowledge expected of an aspiring member is eing carefully tailored to suit the needs of the mes. It is noteworthy, also, that the Council and ne committee are in complete accord as to what ne trend of that knowledge is because the detailed yllabus for these two 'new' papers, now pubshed by the Council as a guide to candidates and utors of their intended scope, comprises - with nly minor amendments - Appendices E and F of he committee's report which outlined the ssential points of contact which the accountht should have with business management.

Among the other items with which the Council eals at this stage are remuneration and study ave. There is a distinct connection between these two amenities of an articled clerk's life and while the Parker Committee made it plain that,

in the case of remuneration, absolute uniformity was not practicable or even desirable, it considered that more information as to the ruling rates being paid should be made readily available to principals and to careers advisers. The Council agrees to this recommendation and proposes to incorporate the inquiry as part of the survey now being undertaken by the district societies of the current levels of professional fees and charging rates. As regards study leave, the Council accepts the suggested retention of the maximum allowance of twelve months but proposes, in the case of a clerk exempt from the Intermediate examination. to fix the maximum at eight months. The Parker Committee's recommendation which prescribed a general minimum of six months study leave over the whole period of articles is also accepted.

It would appear that three main matters raised by the Parker Committee have still to be resolved by the Council. One of these is the possibility of supplementing the existing study arrangements by short tutorial courses, to be provided by local technical and commercial colleges, by way of introduction to each of the Institute's examinations. The Council, in its first statement, intimated that it would like to promote such a scheme on an even wider scale than that envisaged by recommendation (46) of the Parker Committee Report. It now reiterates this view but points out that some time must elapse before the extent of the services available can be assessed.

The two other major questions still under consideration are the proposals that each practising member, before signing on his first articled clerk, should satisfy a panel of senior Institute members as to his suitability to assume the responsibilities and obligations of a principal; and that clerks on becoming articled should contribute to an Education Fund out of which the whole of the Institute's expenditure on student activities would be financed. The Council proposes to make further statements in due course and emphasizes once again that, as changes in the Institute's constitution would have to be made before certain of the recommendations could be ratified, no member or student should in the meantime take anticipatory action.

# **Business Codes**

by PETER BAILY

An article discussing the uses, pros and cons, construction and types of codes in business.

HE straightforward and obvious way of referring to people and things is to call them by their names. Despite this, we live in a coded world. Our cars and telephones have code numbers; our houses may soon have coded addresses; we ourselves have National Health code numbers and several others, for instance bank account codes. At work we operate with many codes from the red paint which identifies fire-fighting equipment to accounts codes, wage numbers, cost classification codings, product codes, besides part numbers, credit ratings and materials codes. Why?

Short description is often the main reason. A telegraphic address such as 'Stanlife, Leeds' is a lot shorter than the full postal address, yet both enable the same post office to deliver a message to the same place. To save writing time, to provide a definite filing order, often to give effect to a systematic classification, and to combine complexity of reference with shortness of symbol—these are the main reasons for coding.

## **Bad Codes Worse than None**

Codes are not hard to devise, but it is asking for trouble to throw a code together anyhow in the totally erroneous belief that any code is better than none. Codes should be devised to solve the problems which have made their adoption desirable without engendering new problems. If a main purpose is to save writing time, it would not be sensible to adopt a code which nobody can remember, since time saved in writing may be more than lost in looking up code keys.

Furthermore, we live in a fast-changing world, and codes must allow for this. They should be designed to accommodate future developments as well as current requirements. Suppose we decide to code all stock items. We may do this very simply by listing all items, arranging the list in a rational order, and numbering down the list. Brass rod 1 in. diameter appears as code 1049, and brass rod 1½ in. diameter as code 1050; and all is well until it is decided to stock brass rod 1¼ in. diameter. We would like to give this new item a code which fits into the sequence at the

right place, between 1049 and 1050, but we have left no room. So we have to put the new item right at the end of the line – and quite soon all semblance of rational order disappears.

Classification codes ought to overcome this difficulty; but a large electrical manufacturer adopted an elaborate decimal classification code using nine-figure symbols for his products a few years ago, only to find to his cost two years later that the code did not have enough elbow-room, or 'hospitality' as the experts call this characteristic, to accommodate additions to the range at the right positions. That code was devised by the chief engineer. Let us hope that the chief accountant would have done better.

### Colour Codes

What elements are available for building codes? We can use colours if all we want is an identification code. There is a British Standards colour code for painting steam pipes, air pipes, cranes. fire-fighting gear, and such. Colour codes are often used to distinguish the different specifications of steel in a factory stores. High-alloy steel costs several times as much as mild steel but looks just like it to the naked eye. Consequently a store which saws off slices from stock bars to make issues needs some identification system which lasts right through a bar, like the name in Blackpool rock. A stripe of coloured paint down the full length of the bar will identify it even when there is only a stub left. With six colours, a single band will identify six kinds of steel and a double band will identify thirty-six kinds. Few firms go further than this with colour codes, although a surprising lot of information can be conveyed with colours.

But most codes are required to give unique and specific shorthand descriptions or nicknames which can be used to refer to the items as well as identify them, and for these the only elements available are letters and numericals. Be it noted too, that there are only twenty-six letters. Heathenish symbols such as Greek, Russian or Hebrew letters must be avoided, since they are unknown and unpronounceable to most of us. Capitals, lower case and italic letters must not be used as if they were different, since they are pronounced the same. Punctuation marks should not be used except as spacers. As for numerals, there are just ten of these as elements; Roman numerals do no extend the range because they are simply group of letters. The British Museum uses Roman numerals in its classification system, but this is hardly an example to follow. (One would have thought the Museum would have better differen-

tiated between its exhibits and its current procedures.) The choice we have is between codes using numerals only, codes using letters only, and codes using both.

# Alphabetic v. Numeric Codes

Numeric codes seem to be more common; the reasons no doubt include the limitations of some simple accounting machines, besides ignorance and unreasoning prejudice. In making the choice we come up against a major watershed between codes for people and codes for machines; the criterion for visual recognition differs from that for machine selection.

Brief code words, easy to recognize and quickly written, which can be achieved with alphabetic codes, are a great advantage for people; but not for machines. It can be proved mathematically that the most efficient codes for machine selection are either binary or trinary – that is, they have either two elements, like the Morse code with its dot and dash, or three elements. For most purposes these would give very long code words. To code only 1,000 items in binary, we should have to use tenfigure numbers.

Binary codes are used by all the present generation of electronic computers because they are the most efficient, and often the only practicable codes for these machines; but they are useless for people because the code words are too long to write out or remember. Several firms therefore use for their materials codes (usually the biggest coding job in a manufacturing or wholesaling firm) an alphabetic code with a binary translation. An example is the one used by Boots the chemists, who employ four-letter code words: for instance, CIOB for Kodak promide paper.

For ordinary use numeric codes have a decimal base. This obviously gives shorter code words than a binary base, since ten choices of element are available for each place instead of two. To code a thousand items with ten code elements would give three-figure code words instead of the ten-figure binary symbols.

# Advantages of Alphabetic Codes

Alphabetic codes give shorter symbols still, ince we now have twenty-six choices for each place in a code word. There are 676 two-letter words. There are not far short of half a million four-letter words. Some of these would not be suitable for use in a materials code, but even excluding the four-letter words best reserved for

crises, there are still over forty-five times as many left as there are four-figure numbers. In general there are 2.6n times as many n-letter code words as there are n-figure numbers.

Alphabetic codes have other advantages. Often the words can be made pronounceable by proper choice of vowel and consonant. The French have done a good deal of work on this; the argument is that a word you can speak, such as BALUXA, stays in the memory better than a shorter but unpronounceable one such as TXTRF. Often, too, the letters in a code word can be chosen to remind people what the symbol stands for: S for steel, A for aluminium, B for brass.

If both letters and numerals are used interchangeably, the possible choice of elements for each place is further increased, though not to thirty-six, since either the letter O or the numeral o, and either the letter I or the numeral 1, would need to be excluded, and perhaps others, too, to avoid confusion. But in practice letters and numerals are not often used interchangeably. The experience of the motor-car registration people as well as of telephone authorities shows that it is easier to remember a long symbol made up of one group of letters followed by one group of figures, for instance, AVX703, than one in which letters and figures are mixed up, for instance, A7Vo3XV. The letters in a telephone number are simply mnemonics and do not shorten the symbol at all: examination of a telephone dial will show that ADI and BEG and 234 come to the same thing.

# **Code Construction**

It is possible to calculate the number of elements required to code a given number of items to get code words of a given length. If we denote the length of a code word—the number of elements it contains—by a and the base of possible elements by b, and the number of items by c, then:

 $c = b^a$ 

Hence,  $\log c = a \log b$ .

Hence,  $a = \log c/\log b$ .

If we intend to code 10,000 items using a decimal base, b is 10 and c is 10,000. Hence the length of code word is given by:

 $a = \log 10,000/\log 10 = 4/1 = 4.$ 

We shall need four-figure numbers. If we want to code a million items using an alphabetic code,

 $a = \log 1,000,000/\log 26 = 6/1.415 = 4.25$ 

The average length of code word will be just over four letters.

We could use five-letter code words if we

wanted every code word to have the same length, but why should we? Reading and writing codes is work; an efficiently designed code minimizes this work, and one way to do it is by making the most popular code words the shortest. The length of a code word should in theory vary inversely with the logarithm of its frequency of use.

Having chosen our code base, the ne

Having chosen our code base, the next problem is how to construct code words, and how to assign them to items; shall 60950 stand for fish, flesh, or fowl? The three standard approaches are, firstly, mnemonic – choosing code words which remind us of their meanings; secondly, random – assigning code words arbitrarily; and thirdly, to base the coding on a systematic classification.

Mnemonic codes are widely used in engineering factories for coding stock. They are used, for instance, for the exchange letters in a telephone number. But they are hard to apply when the number of items is great; already in the U.S.A. the adoption of subscriber trunk dialling is leading to the abandonment of mnemonic

exchange coding.

Random codes are also popular – perhaps more so than they deserve to be. They are often used by accountants for applications which might be better served by classification codes. An example of a random code is one used for the several thousand different colours and shades to which yarns are currently dyed by a textile factory. Any new shade is assigned the next number in sequence. We can tell absolutely nothing about colour No. 10,045 from its number; all we can tell is where to find it in the colour register.

### Classification Codes

Standard classification of regular stock items has many advantages for organization which carry a lot of stock, especially when there is more than one establishment. It assists greatly in variety reduction. It speeds and simplifies purchase action. It helps stop the duplication of stock under different names which inflates inventory and forfeits quantity discounts. Classification codes are derived by dividing the times into classes and numbering each class; then subdividing, and so on.

Librarians have laboured mightily on classification codes. They are storekeepers, of course, but nearly every piece in their stock is a different item, and for learned works a full description would be both lengthy and multi-faceted. Library codes therefore present a greater challenge than most stores codes, and have drawn a correspondingly better response. Bliss, Berwick Sayers, Vickery, the great Indian abstractor and jargon inventor, Ranganathan, are some of the names well known to the specialist in library taxonomy; but all of us have heard of Dewey.

Melvil (he was christened Melville, but to save time shortened his name by two letters) Dewey was born in 1851 and survived undaunted to 1931. He devised (no doubt partly in the time saved by shortening his name) a decimal classification code for the whole of human knowledge so simple and mighty that it has been translated into ten languages, including Chinese. The Universal Decimal Classification or UDC is a later version identical to the first three places, which has been adopted by the British Standards Institute and is published as BS1000.

If used to code the contents of a factory stores, the UDC would give symbols of excessive length. Much better to devise your own code on the same principle. We could divide the stock into nine classes, for instance: class 1, raw material; class 2, made-to-order production parts; class 3, off-the-shelf parts used for production; class 4, works supplies; class 5, office supplies; class 6, packaging; class 7, jigs, fixtures, permanent tooling; class 8, work in progress; class 9, byproducts. We reserve the numeral o for items which do not fit into the main classification general items. Next we subdivide each class; class I might be split into steel bar, sub-class I; steel sheet, sub-class 2; bronze tube, sub-class 3; and so on. The coding for any bronze tube will begin with 13. We sub-divide further; steel bar to specification En 32 might be 111, steel bar to specification En 36, 112. And so on until we come to individual items.

We could use letters instead of numerals to label the classes, and then we could split into twenty-six instead of nine classes at each section. Instead of one class for raw materials with subclasses for different materials, we could then have a different class for each material – B for bronze, S for steel, and so on.

Classification codes have three main advantages. First, with practice, people remember the main class labels, so that code numbers become meaningful and hence easier to remember. Secondly, new items can be allotted numbers which fit into the sequence at the right place; a well-designed classification code can be very 'hospitable' or have plenty of elbow-room.

Thirdly, extraordinary savings are regularly reported to have resulted from the adoption of such codes for materials. It is the systematic classification rather than the code itself which

makes this possible. One concern found it was using thirty-two different names for thirty-two plain discs of sheet metal.

# **Self-checking Codes**

If, in writing the description of something out in full, a word is misspelt, the meaning is still usually clear enough. But code words are so boiled down that the slightest error can be serious. Accuracy bonuses to machine operators have been tried to prevent such errors.

The next best thing to preventing errors is to arrange for them to announce themselves promptly. If you dial 60590 instead of 60950 on your telephone, you find that you have dialled a wrong number almost as soon as the call is answered. But if someone writes 60590 instead of 60950 in a stock recording system, it may be months before the error comes to light and meanwhile a train of

further errors will be smouldering away – orders placed too early or late, costs wrongly allocated – culminating perhaps in some colossal and ridiculous bloomer which gets into the papers and adds to the mirth of nations.

With a view to stopping this, computer men have been introducing controlled redundancies into their codes in such a way that random errors are more likely to reduce a coding to nonsense than give it a wrong meaning, or that a simple numerical check will disclose that something is wrong. Numerical codes can be arranged so that the sum of the digits is always odd, or always even, or is a multiple of 11 or 23. Historically-minded accountants will recognize this as a revival of an old book-keeping practice: the use of check numbers, the number of pence necessary to make a figure divisible by 13, which were posted with amounts so that additions could be checked.

# The European Common Market

by SIR GRAHAM CUNNINGHAM, K.B.E., LL.B.

A talk given to members of the London and District Society of Chartered Accountants on October 30th at the first of a series of three meetings on the Common Market

THINK it is wise to start with some definitions. The first—a very simple one—what is a customs union? It is an agreement be ween two or more States whereby they will ave no tariffs at all on goods entering from one State the other, and they will have a common tariff on ll goods entering into their area. It generally takes a natter of at least twelve to fifteen years for that ideal to come about. You cannot drop tariffs overnight. That would considerably disrupt both trade and adustry. It is done gradually, and twelve to fifteen ears is generally reckoned to be the time it takes for hat to come about. That is something significant to which I will refer a little later.

Now there is a free trade area – my next definition. If free trade area has no tariffs among those who have greed to come into that area, but they still maintain heir own individual tariffs to all outside. You see he difference? There is a common tariff to all utsiders in the case of a customs union; but with a ree trade area, all the members retain their individual ariffs.

Then we come on to a common market, which is hat we are now concerned with. A common market, nd I might say here that the European Economic

Community is something more than a common market, is both a customs and an economic union. There are no artificial tariffs at all as between one member of the union and another; no restrictive practices, no monopolies, no subsidies. This is something more than merely dealing with tariffs; it is a much wider aspect of union. Again, a common market of that kind is reckoned to take about twelve to fifteen years to come about.

Sir Graham Cunningham, formerly chairman of Triplex Holdings Ltd, the well-known safety glass company, has held a number of other company chairmanships and was also deputy chairman of Cyril Lord Ltd until his retirement at the end of December 1961.



Those are my three definitions and they are distinctions which are important in considering this matter.

### Post-war Reconstruction

Now we come to history. After the war, everybody was considering the need for post-war reconstruction, especially the countries now in the European Common Market, because they had been overrun and occupied by German troops almost entirely. The result was that a whole lot of communities, organizations and policies were discussed.

Probably the first of the effects of those discussions came from America, when the United States, seeing the devastation and the position of many of the backward countries, started Marshall Aid. It was a grand vision and was the first move towards doing something to rehabilitate the countries devastated

by war.

But, before Marshall Aid really became effective, the three small countries comprising Benelux – Belgium, the Netherlands and Luxemburg – got together and announced the formation of a joint customs union. That was in 1947, and that was really the start of the Common Market.

At the same time Marshall Aid was proposed by the United States and seventeen European countries got together to form what was called the O.E.E.C. – the Organization for European Economic Cooperation. That was formed for the sole purpose of carrying out and implementing the provisions of Marshall Aid. An offshoot was EPU – the Economic Payments Union – which was really a kind of banking organization for O.E.E.C. and started operations in 1948.

In 1949 there was a great deal of talk about the Council of Europe. I believe Sir Winston Churchill was a great supporter of it in those days, as well as Anthony Eden and various other people. There was a great deal of talk but it did not, so far as I know, come to very much; except, of course, that it did show the willingness and the anxiety of the European countries to get together in some form or another—political, economic or social.

### **Britain Stays Out**

Next came the European Coal and Steel Community, comprising the countries now forming the Common Market—the Benelux countries, together with France, Western Germany and Italy. They formed the European Coal and Steel Community for the purpose of eliminating violent competition among themselves and, I remember, the United Kingdom was asked if it was prepared to join. We did not join, and I think in those days, in the light of circumstances, we were right to come to that conclusion, although in the event it is a pity we did not join. But we were, and still are, the cheapest producers of steel in the world, except I believe for Australia, and Australia

does not export. If we had joined it would have put up our price of steel because they have a common price in this Coal and Steel Community. We were very short of coal in those days; and that was another problem for us in considering whether we could throw our coal in, in line with the European Six, and what we should do about steel.

In the light of those circumstances Britain said 'No, we do not think we will join', but we did get permission to have an observer who sat in on all their deliberations. In fact, it was my old friend, now deceased, Sir Cecil Weir, who went over there with the rank of Ambassador.

The European Economic Community is a broad and permanent idea. It is a permanent idea of a large economic community which gave rise to the Treaty of Rome. It took years of deliberation and it is a much wider conception than any of us had contemplated when the European Coal and Steel Community was formed. The E.E.C. started in 1958, and consists of a Commission, which is a Council of Ministers having power to make executive decisions. Only this morning I read in the first paragraph of the main news of The Times: "The Common Market Commission announced its intention today of establishing the Customs Union by January 1st, 1967.' That is three years before the end of the transitional period laid down by the Treaty of Rome.

Now I have told you what a customs union is, and that is part of the E.E.C.; the Common Market is a customs union. They have been progressing towards a customs union since the Community was formed in 1958, and when they started they contemplated that there would be three four-year periods at the end of each of which they would lower their tariffs among themselves. That would have meant 1958, 1962, 1966 and 1970; and now by saying 'Look, we will get down to a complete common market with no tariffs between us by 1967' they have anticipated their original intentions by three years. And that decision was made by the European Economic Commission – a meeting of ministers of the six countries.

There is also, as part of the Common Market, a European Parliament which meets at Strasbourg and there is a Court of Justice which meets a Luxemburg. Hence you see that this economic community is social and political as well as economic. The Times has come to my help again, because in today's issue it says:

"The first issue of the Common Market Law Reports is being published today. The need for suc a series in English is apparent whether or no Britain enters the Common Market. The European Court of Justice, sitting at Luxemburg, has wid powers of interpreting the three treaties.'

The three treaties are the Coal and Steel, Euraton and the Common Market, the width of the Common

Market Court's jurisdiction being comparable rather vith that of the International Court at The Hague; he reason being, of course, that the Court interprets reaties rather than the law as do our British Courts of law.

I mentioned Euratom, for apart from having a ommunity in relation to coal and steel, the E.E.C. as established another one in relation to atomic nergy; but I am not going to deal with it further ecause it does not really concern us at the noment.

# **Second Thoughts**

n 1960, after the formation of the Treaty of Rome n 1957, and the Community starting operations in 958, Britain began to wonder whether she should ave joined in, and what she should do about it. Tarious bodies – the Federation of British Industries, he Chambers of Commerce, the Government and thers – all started scratching their heads and rondering what should be done. So there emerged that is called EFTA. – the European Free Trade trea – made up of Great Britain, Sweden, Norway, Denmark, Austria, Switzerland and Portugal – that the Seven'.

Then, of course, against that there has been a ertain amount of talking among some of the Middle ast countries as to whether they cannot form either free trade area or a common market; and there ave also been suggestions (which have come to othing) about the Commonwealth group forming n area of their own.

So much for definitions and history. We have come p from the post-war era to today when, as you know, tritain has made application to join the Common Tarket. You may also have seen that Ireland has not nade application to join the Common Market, they ave asked permission to make application to join. There is a distinction because the European Community will not let anyone apply to join the Common Tarket unless they feel they have an economy which worth while considering; and so an applicant first as to get permission to apply. So, if you think I am taking a mistake by saying that Ireland has not yet oplied, I have not; they have asked permission to pply and that is being considered by the Council of Inisters at the present time.

You see how careful they are and the vetting that sees on before a country is allowed to join in the ommon Market. Britain has got through the earlier ages, as you well know. They think we are good sough to come in, if we can come to terms with sem, and that is satisfactory at any rate.

### **Common Market Aims**

That are the aims of the Common Market? In the rst place, the main aim is complete freedom of ade between members, and that they hope to achieve y January 1st, 1967. They hope to have a common

tariff wall against all other people and a common commercial policy towards third parties - a common commercial policy with regard to restrictive practices, with regard to monopolies and so forth. They want complete abolition between the members of all obstacles to the free circulation of persons, services and capital. That means that social services and benefits should be the same in all countries within the community. And, of course, a common agricultural policy. They have not yet settled on that among themselves, let alone with this country, and that is one of the stumbling blocks at the present. They also want what they call a harmonization of social policy - that is, equal pay for men and women for the same work, holidays with pay - and in short what really comes down to a United States of Europe. That is what they are aiming at. It is a great conception; a very grand conception; it is something far more than mere economics and trading. It is a real knitting together of all those countries, and it means, eventually, something more than that.

# Some Implications of Membership

There are, however, certain points in relation to this Common Market which are worth observing. One is that the present members are all joined together by land. But Britain is surrounded by sea. That makes a lot of difference. As regards tariffs, the country of origin of goods is frightfully important, and we would probably have to give guarantees and have to accept observers from 'the Six' to see that our Customs people strictly play the game. I have no doubt that in a very short while we should be accepted as watching and guarding against abuses; however, when all the countries are on the same piece of land it is much easier to keep a check, for the Customs are all round and the personnel can be interchangeable. But Britain is over the sea, and that does make that little bit of difference.

Then there are the professions. What about your own profession? I do not know too much about it, but I think I can say this without giving offence to anybody, that the standard of the professional accountant in Holland is very high - and in Belgium, too. Germany is good; France, I think, comes next; in Italy the set-up is rather different. You know more about that than I do, but if Britain goes into the Common Market it will mean, I think, that all people who are accepted as ranking as qualified accountants in their own country would expect to be accepted as qualified accountants in this country because you have got to have a commonality. If that applies to the accountancy profession, it will apply to doctors, and I see that doctors have been considering this very thing at their conference recently. As to the lawyers, we are up against something a bit different because in some countries of 'the Six' the lawyers and the barristers are amalgamated – there is fusion. This is not so in this country and I know that The Law Society and the Bar Councils have been

considering that aspect of it. The chartered surveyors, I believe, are in rather a good position because I am told there are no chartered surveyors on the Continent, so they have got it all to themselves. What the position of architects is I do not know. However, I am just touching on this question and I may be making some mistakes about it; but this gives an idea of some of the implications facing our professions if we enter the Common Market and I am quite sure that all professional bodies, if they have not already started, will soon be considering where their own members stand in relation to this position.

There is also the question of subsidies. If, for instance, railways are subsidized and cost tens or hundreds of millions perhaps a year to maintain, it really means that everything on those railways is being subsidized and the Government is paying something to keep the freight rates down instead of the freights paying for the running of the railways. That would mean, therefore, that the movement of goods in this country was not equivalent to the movement of goods on the Continent because of a subsidy. Again, take a Government-owned aircraft flying over to France; if it was subisdized by the British Government, the goods that were being carried would not be paying their full whack of freight. Those things will have to be sorted out so that there is not too much subsidy by one foreign Government to give a preference in the price and cost of goods as against another when there are no tariffs to adjust in between.

The question of patent law is also something which will have to be examined. There have been international agreements in relation to patents before and they may have to be more internationalized so far as this country is concerned. The question of monopolies and the Restrictive Practices Act will unquestionably have to be modified and there will have to be legislation so as to make sure that our arrangements are similar and match up with the arrangements on the Continent.

## Commonwealth Problems

Now I want to touch on the Commonwealth. With regard to the importation of raw materials, I think I can say in general terms they are no problem. They do not enter into any of the discussions, because raw materials coming in will not be affected by our joining the Common Market, whether they come from the Commonwealth or anywhere else. As to tropical products, there is very little trouble about those either.

But when you come to the temperate foodstuffs and manufactures then, of course, you are up to your neck in it! Temperate foodstuffs comprise such things as mutton, butter, eggs and the like and, of course, New Zealand is probably the most vulnerable of all in relation to temperate foodstuffs and their importation into this country under the preferential tariff. We have got to accept the brutal fact, however, that

the proportion of Commonwealth imports and of our exports to the Commonwealth are both declining and have been declining for some time. At the same time, the Commonwealth countries have been setting up subsidiary industries of manufacture and they have put in tariffs and quotas against this country, as well as against the rest of the world, for their own protection. I am not complaining about the Commonwealth countries doing that; it is an obvious thing they had to do. But the Mother Country has got to live as well, and so naturally one has got to say, 'Well, it is all very well thinking of the Commonwealth countries, but we have also got to think of Great Britain'.

Those are certain facets; there are others pulling in the opposite direction, but let us face up to the reality of this thing: the Commonwealth countries very naturally have all been arguing their own point of view. I am trying to present our position in broad terms, and if we try and meet everybody's point of view in the Commonwealth, this poor old Mother Country might be left out in the cold. We have to support the Commonwealth—there is no doubt about it—and I do not say for a moment that I am arguing either for or against the Common Market. I am only trying to present some fairly obvious pointers.

# More Competition – But More Exports

The Common Market countries maintain a total population of the order of 170 million, Britain has roughly fifty million. That makes a total consumer population of 220 million, which is a greater population than that of either the United States or Soviet Russia. I think the United States has about one hundred and seventy-eight million and Soviet Russia about two hundred million. Now, combined manpower is an extraordinarily important thing; it is a force of production and consumption which makes for prosperity as long as they are above the starvation line.

If, then, Britain joins the Common Market, what involved? Let me touch on a few things. There wi obviously be more competition in the home marke from the Continent; but on the other hand, we sha have new export opportunities to the Continer because there will be no tariffs against us, or common tariff as between one and the other unt 1967. There will be a need on the part of our manu facturers and exporters to redirect their expor thinking. They will have to think, for example, standards in the Common Market and various other things; but there will be new opportunities given; us for purchasing on the Continent, and possibly switch some of our present sources of supply fro other foreign countries to the Common Market ar that should be to our considerable advantage. That from the trade point of view.

Then we must look at it from the business point wiew. Unquestionably we would very quickly have t

have bi- or tri-lingual instructions on everything we produced and sent out. There will be a need for greater standardization because we shall have to conform to European standards as well as our own, and that is where the British Standards Institution is loing such splendid work in trying to get international standardization for so many things. That ought to make longer runs on our production ines.

There will, of course, be certain changes in our lesigns and specifications to meet continental equirements; there should be larger units through malgamations between ourselves and our former ompetitors and possibly our partners on the continent, and in any case there should be a great leal of co-operation — if not actual unity — with ontinental firms. I think that we shall quite quickly equire common measurement as well as a common oinage. Those are things which I think will follow not we are in the Common Market.

# **Higher Food Prices**

In the labour position, there will undoubtedly ave to be consultations among the unions on their ttitude towards labour and production methods. 'here will unquestionably be a labour reaction to igher prices. It has been said that the cost of living ill go up; in a way it will, but in another way it will ome down. I think probably the cost-of-living index ill not be altered, although the price of food, nitially at any rate, is likely to go up. You see, there is Government subsidy at the present time of the rder of about £1 million a day to the farmers. We ay this to the farmers each year to keep farm prices own and keep our farmers going. On the Continent ley do not have a Government subsidy; there is a msumer subsidy, and that, of course, puts up the rice of food to the consumer. That would put the price of food in Britain if there is a common ricultural policy.

Against that, a whole number of goods which we all be able to import into this country should be leaper; television sets, washing machines, and rious other things. There will be greater comtition and prices of those products should come win, and they are all included in the present index retail prices. So, by and large, the cost of living ould not go up but I think the price of food will; id there will probably be a new wage policy which e unions would have to negotiate in line with the ommon Market provisions on equal pay and social rvices.

Horticulture, apart from agriculture, to some extent ay be adversely affected. There will, of course, be eater competition; however, British horticulturists e ahead in many things and will no doubt hold eir own.

I now want to deal with another matter and that is e extraordinary fact that while these developments ve been taking place, between forty and fifty countries in the world have signed a treaty called GATT - General Agreement for Tariffs and Trade - by which it is agreed, in effect, that no one would put tariffs up; in fact through consultation with one another all would gradually tend to bring them down. Yet, in spite of that far-reaching agreement, this European Common Market has grown up. Why? A lot of people say it should not have done; that GATT could have done the job. I do not think it could, however. One feature about GATT was that while the Americans agreed to it, Congress would not ratify it, so it does not apply to them. That means that the United States can still put their tariffs up against us if they like; although, I may add, a Bill was passed and ratified by the President only this last month, whereby he now has greater powers to reduce American tariffs than the President has ever had before, which is important for this country. But that is getting a bit away from GATT; America never really joined GATT. She was never really bound by it.

Nevertheless, GATT only dealt with economics—with tariffs—whereas this Common Market is something much bigger, of much wider conception; much grander. Its aim is to bring the countries of Europe together as a community.

# Outlook for Industry

Finally, here is a list of some of the industries which may be favoured if Britain joins the Common Market; also some which may expect a mixed outlook and some which may be least favoured. The industries which it is said will be favoured if we enter into the Common Market will be tractors, commercial vehicles, electric computers, textile machinery, men's clothing, woollen cloth, iron and steel, office machinery and chemicals. That is a fairly wide selective list.

Those with a mixed outlook – those which just do not know how they will fare – include machine tools, general engineering (such as pumps and earth moving equipment), furniture, pottery and glass.

The manufactures which it is thought will suffer to some extent include cotton textiles, leather goods, footwear, cameras, toys, scientific instruments, watches and clocks – all things which continental countries are pretty good at, and so naturally the British industries in these fields may feel the draught. However, it is provided in the Treaty of Rome that if in any country an industry is particularly hardly hit, if there should be any industry which really would go right out completely because of the circumstances of the Common Market, the Government has the right to give that industry certain help and to subsidize it. Otherwise Governments must not, of course, subsidize any industry because that would be giving it an unfair advantage.

I hope these observations may be of some assistance in appreciating and perhaps understanding the implications of this difficult but most important subject.

# Weekly Notes

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# RESIGNATIONS FROM THE COUNCIL OF THE INSTITUTE

THE resignations of Mr Donald V. House, F.C.A., and Mr C. U. Peat, M.C., M.A., F.C.A., from the Council of The Institute of Chartered Accountants in England and Wales were received with regret at the meeting of the Council held on November 7th, a report of which appears elsewhere in this issue.

The Council thus loses two Past Presidents who have rendered outstanding service in many spheres. Mr House joined the Council in 1942, Mr Peat in 1944, and so have been in the centre of affairs during a period when the membership of the Institute has nearly trebled. More important still it has been a period during which the Council has been much more closely in touch with members generally throughout the country. This is due as much as anything else to the development of the summer courses with which Mr House has been so closely identified. He served. as chairman of the summer course committee from its inception in 1947 until 1953 and was chairman of this year's course at Oxford. Mr House has also served on many other of the Council's committees, being chairman of a number of them. He was Vice-President of the Institute in 1953 and President in

Mr Peat is the bearer of a most distinguished name in the accountancy profession and is one of the very few accountants who have taken an active part in parliamentary affairs. He was Conservative M.P. for Darlington from 1931-45 and during the last war was firstly Private Secretary to the President of the Board of Trade, then Joint Parliamentary Secretary to the Ministry of Supply and subsequently served as Parliamentary Secretary to the Ministry of National Insurance. Mr Peat was elected to the Council in 1944 and has served as a member of the General Purposes Committee, District Societies Committee and Articled Clerks Committee. He was Vice-President of the Institute in 1958 and President in

The accountancy profession owes both these distinguished men a considerable debt of gratitude.

# STOCK VALUATION AND THE INLAND REVENUE

THE House of Lords' decision in Ostime v. Duple Motor Bodies Ltd (40 A.T.C. 21) has emphasized that there can be more than one valid basis of valuation of stock-in-trade for the purpose of computing profits under Case I of Schedule D. Clearly the Inland Revenue cannot insist on a trader retaining

the same valid basis for all time, particularly as techniques of stock valuation improve. On the other hand, there could be some scope for manipulation. The Council of the Institute of Chartered Accountants in England and Wales sought the views of the Inland Revenue on the topic of changes in the basis of stock valuation and this has brought forth a note from the Inland Revenue which is reproduced on another page. We need hardly say that the pronouncements in the note do not have the force of law, but the statement will nevertheless perform a most useful service to the profession and to trade and industry generally.

# SCHEDULE E EXPENSES AND THE HEADMASTER

F a headmaster attends lectures on history for the purpose of preparing lectures to be delivered by himself at his school, do the lecture fees paid by him constitute an expense incurred wholly and exclusively in the performance of his duties as headmaster? On November 8th, Mr Justice Ungoed-Thomas held (according to *The Times*, November 9th) that they did not. Mr Thomas David Brooks, headmaster of Tintwistle Church of England School, Hyde, Cheshire, took a course on history at Burton Manor Residential College of Adult Education. He was required to give lectures on history at his school and he could not attend the College during school hours. He took the course to improve his knowledge, finding it easier than studying textbooks. However, his contract as headmaster did not require him to attend such a course. The General Commissioners allowed his claim to deduct the £9 but the tax inspector appealed on the ground that Mr Brooks was not performing his own duties when he attended the lectures; his duties consisted of teaching, not attending lectures. The Court accepted this argument and allowed the Crown's appeal.

# PAYMENTS FOR TECHNICAL EDUCATION ALLOWED

IN 1946 the Income Tax Acts were altered in orde to permit a trader to deduct, in arriving at hi taxable profit,

'any payment to be used for the purposes of technica education related to that trade at any university o university college'

and at approved technical colleges (Finance Act, 1946 section 29). Technical education was to be deemed to be related to the trade if, and only if, it was technical education of a kind specially requisite for person employed in the class of trade to which the trade belonged. The section was re-enacted by section 14 of the Income Tax Act, 1952. On November 7t Mr Justice Ungoed-Thomas affirmed a decision of the Special Commissioners putting an interpretation on section 140 which can hardly be welcome to the Inland Revenue.

Mr T. G. Berry, a farmer, of Ashes Farm, Long-ridge, claimed a deduction for the fees paid by him for the full-time education of his two sons at the Lancashire County Institute of Agriculture at Winmarleigh College. The two sons had formerly been employed by him as farm labourers. The Inland Revenue argued in vain (according to *The Financial Times*, November 8th) that the section ought to be construed as being confined to payments for which he trader received some commercial return. His ordship accepted the taxpayer's argument that the ees need not be paid to the College direct, as long as hey were paid for the purposes of the technical education. The fees were accordingly allowed.

# CONTRACTING ADDITIONAL EMPLOYEES OUT OF STATE PENSIONS

N an appeal to the National Insurance Adjudicator by the Bath and Wells Diocesan Board of Finance ADJ/APP.8), the question arose whether it was roper for the Registrar of Non-participating Employnents to add a fresh employment to an existing ertificate of non-participation, by variation of such ertificate, or whether it was necessary for the mployer to make a new formal election with a view to he issue of an entirely new certificate of non-particiation confined to the fresh employment in question, nd leaving the pre-existing certificate on foot quoad he existing employments. The former is the more onvenient and economical course and the Adjudicator reld on September 29th, 1962, that there was nothing o prevent it, either in the National Insurance Act, 959, or in National Insurance (Non-participation lertificates) Regulations, 1959.

At the same time the Adjudicator held that the ariation could not be antedated. He also held that the loard of Finance was the employer of the secretary to be Dilapidations Board of the same diocese, the last ecision being based on the terms of section 9 (3) of the Ecclesiastical Dilapidations Measure, 1923.

### CONTRACTING OUT: LATE APPLICATIONS

No our issue of May 26th last, under the heading 'No back-dating for pension schemes', we reported decision of the National Insurance Adjudicator onfirming that the Registrar's certificate of non-articipation in the graduated pension scheme under the National Insurance Act, 1959, cannot be ante-ated. On June 15th last, the Adjudicator gave two milar decisions in cases where the employer had assed the necessary documents to the insurance ompanies acting for them, but the insurance companies had not passed these on to the Registrar in due me. In the first case, J. Kerswill & Sons Ltd told s insurers, the Northern Assurance Company Ltd, wards the end of 1960 that, as from the commencement of the statutory scheme in April 1961 it desired

to contract out certain of its employees. The employer completed all the necessary documents and sent them to Northern, as its agent, to pass on to the Registrar. Northern did not pass them on until October 1961, however, and the Registrar refused to antedate his certificate to before October 1961. The Adjudicator has now held that he has no power under the Act to direct any antedating, notwithstanding the fact that the employer was not in any way at fault (ADI/APP/3).

In the second case, the firm of Edmund Buckley & Co desired to contract out by means of a scheme through its insurers, the Phoenix Assurance Co Ltd, which company made inquiries of the Registrar, on the firm's behalf, as early as January 16th, 1961. The firm completed the necessary document, and handed it to the local office of Phoenix, in March 1961, but Phoenix did not pass it on to the Registrar until November 1961. As it was not at fault, the firm asked that the certificate of non-participation be antedated to April 1961, in order to avoid double contributions, but the Adjudicator held that he had no power to do this (ADJ/APP/4).

### MORE ABOUT OMBUDSMAN

THE British branch of the International Commission of Jurists (called Justice) has now circulated to all M.P.s a reply to the Lord Chancellor's statement in the House of Lords on the Ombudsman idea. The statement was also circulated by the Attorney-General on November 8th, 1962, in the House of Commons.

The statement said that the Government had considered the proposals made by Justice for increasing the powers of the Council of Tribunals and that a Parliamentary Commissioner should be appointed to look into cases of maladministration. The Government's view is that they would conflict with the principle of Ministerial responsibility to Parliament. In their view there is already adequate provision under the Constitution and parliamentary practice for the redress of any genuine complaint.

Justice's retort has been that there has never been any suggestion that such appointments as the Comptroller and Auditor-General infringes on the doctrine of Ministerial responsibility and that no one suggested at the time of the Crichel Down inquiry that the investigation into the activities of the Ministry of Agriculture was inconsistent with ministerial responsibility. Indeed, said Justice, the disclosures of the inquiry put that doctrine into operation since the Minister of Agriculture resigned. It has already been pointed out in Press criticism of the Government statement that a Parliamentary Commissioner would hardly interfere with the prompt and efficient dispatch of public business (as the Government aver) since such a Commissioner would be concerned with only a minute fraction of public business, and that in any case the prompt attention to allegations of maladministration should take precedence over efficiency and speed of administration.

### SELLING STANDARD SHIPS

CAMMELL LAIRD & CO (Shipbuilders & Engineers) Ltd, have offered to Norwegian shipowners a list of six standardized ships for their consideration. This was done recently in Bergen in Norway and the list ranged from a small short sea vessel to oil tankers and bulk carriers of over fifty-five thousand tons. The offer included possible financial terms to eligible customers including credit ranging to ten years or more. In addition, the company is prepared to consider what it calls 'semi-barter' deals covering part payment for a ship in commodities such as cotton. It might even make an investment in a standard ship, taking a 5 or 10 per cent interest and so entering the shipping world itself.

Mr Robert Johnson, chairman and managing

director of the company, said that they were prepared to visit potential clients in any part of the world whenever there was an opportunity of doing business. All the ships offered would be powered by diesel engines of alternative manufacture. Mr Johnson said that the ships would be substantially lower in price than comparable ships built to owners' specifications. He indicated also that quick orders would get particularly attractive prices.

This is not the first offer of a standard ship made from a British yard, but it is the first of a range of ships so offered. The idea of a standard ship has not appealed very much to shipowners so far, but the offer is a courageous one and an imaginative sales effort from a company which has recently spent large sums in made with a read-

in modernizing its yards.

# This is My Life ...

by An Industrious Accountant

CHAPTER 146

WAR, as Sherman remarked succinctly, is hell. So, too, is the salary problem. People don't get paid enough - they say; they don't get paid fast enough; they have a permanent grievance.

My trouble started simply enough, not in the cutand-thrust of cross-table argument over increments and ceilings, but in the simple mechanics of the monthly payments. It hardly seems possible, but that's how it was.

Salary payments are normally routine events. Time was when I followed my predecessor's habit of laboriously writing out all the cheques by hand, though later arranging for my private secretary to type the dates and names and mandates as a labour-saving device. In hushed secrecy I inserted the amounts and then obtained the appropriate signature before issuing the envelopes on the last day of the month. Little enough work was done in the next hour, I observed, as executives of all levels hastened out on the flimsiest of excuses to the bank.

My portly departmental accountant used to be the worst offender. Early married, and loaded with hire-purchase debts to the utmost limit of precarious solvency, that cheque meant all-in-all to him. Time and again on the penultimate afternoon each month his beseeching eye gleamed round the door. 'Any chance they're signed yet?' he'd whisper plaintively. The following morning his itching palm would appear in silent appeal across my desk almost as I sat down. In the passage outside a carefully nonchalant queue of the less affluent was forming unobtrusively. Few of these cheques were outstanding for long.

There was one disastrous day when the deputychairman, a character far from sensitive to the problems of lesser mortals, went off to play golf one thirty-first of January, leaving the salary cheques locked in his private safe. It had been a long and belt-tightened wait since the Christmas extravagances; the queue grew restive. The muttering grew to a grumbling and the grumbling grew to a mighty rumbling; riot was imminent. I had to take drastic steps to solve the problem, but that, as Kipling used to write, is Another Story.

After that we scrapped the ancient fetish of secrecy and passed cheque preparation down the line, reserving to me only the very top brass. Then there was P.A.Y.E. with its attendant train of miseries – codes and deductions and duplicate advices. Now we pay nearly half the staff by bank transfer. This necessitates earlier payments, which please everyone, though my D.A. still haunts the passage like Hamlet's ghost.

my D.A. still haunts the passage like Hamlet's ghost.

Then, recently, I innocently mentioned my intention of paying out December salaries the Thursday before Christmas, and Prinny, our personnel director, waxed indignant. Much too early, he objected, dismissing with a snort my claim that pay is, in fact, equitably and morally due in midmonth. Two weeks in arrear, two weeks in advance I adumbrated, and called on our auditor for support

That gentleman took the point facetiously, remarking that the problem wasn't giving Prinny any grey hairs. Then it was that I put my big foot right in it. 'Oh, he takes good care not to acquire grey hairs', I smiled. My aim was only to pay tribute to the director's calm, panic-free, efficiency and equanimity, but Prinny suddenly went puce.

'I don't know what you think you mean by that remark', he grunted sourly. I noticed suddenly the fresh golden glow on his gleaming curls; for the firstime I realized that he had a regular rinse as well as perm. I stuttered and reddened in turn; there was painful silence; our erstwhile friendship was shaken

Mercifully our auditor saved me by referring sadly to his own balding dome, thus distracting the director, or I might have paid dearly for my tactless ness.

# Finance and Commerce

### P.L.A.

EXTRACTS from the March 31st, 1962, accounts of the Port of London Authority which comprise this week's reprint provide an interesting variation from the usual company accounts. This year's P.L.A. report and accounts look startlingly modern compared with 1961. It is not merely a question of form and layout, shape, size or paper; it is a complete transformation. Side by side, the past looks quite old-fashioned.

Size, previously foolscap, is now eleven inches deep by eight and a half inches. The cover, magazine style, is high-gloss and opened out to seventeen inches wide gives a fine picture of ships in dock. Many other pictures show ship and dock scenes, and the centre opening provides two maps, one of the Thames from Teddington to the Nore, the sixty-nine miles under P.L.A. administration, and the other a plan of the docks from London down to Tilbury.

For the accounts, of course, precise form is prescribed by statutory instrument but the presentation has been made attractive and the figures easy to follow by good layout, the use of blue ink for narrative and current figures with the comparison in black.

Following the accounts are charts and statistics showing the work done by the port; trade handled, tonnage of goods, stocks of goods in the Authority's warehouses, five years' trade figures with 1962 in larger type – a very useful idea – and statistics of assets.

# Present Values

As required in accounts of this nature one of the statements is of capital expenditure. Here is shown the original £23,027,113 in connection with the acquisition of the undertaking, plus £30,492,185 for subsequent improvements less £5,153,407 for war damage total losses. In sum total, there is just on £51 million involved. The annual report notes that it has recently been estimated that if the Authority's eplaceable assets were to be constructed today, the lost would be nearly £200 million and that leaves out and, excavations, etc.

The point is made that on this basis, interest and sinking fund charges would need to be some ten imes the comparable figure in the accounts. 'The Authority's charges would have to be much higher

and capital would then be seen to be as significant as labour in the Authority's operations.' The report deals both with the efforts of the Authority to keep port charges as low as possible and of the inevitable increase in charges to put the port's finance on a sounder basis. The year actually resulted in a deficiency of £718,527, the largest ever in a peacetime year.

The report contains many items of incidental interest, such as, for instance, that during the year nearly five thousand tons of miscellaneous driftwood

were collected by the P.L.A. staff.

# City Centre

I'T may sometimes be wondered just what Mr 'Average Shareholder' makes of accounts like those, for example, of City Centre Properties Ltd. This observation is not a criticism of the accounts as such, but an expression of a feeling that, faced with a consolidated balance sheet totalling over £80 million and a consolidated revenue account that brings in £5,673,238 for rents receivable, the average man is out of his depth.

The same can, of course, be said of many other of the big multi-million companies that make up the business firmament. Which prompts the thought that perhaps it is more the personalities, and the results they achieve, in which the average investor places his trust. Here, in City Centre, is the Cotton-Clore property empire. Chairman is Mr Jack Cotton; deputy-chairman is Mr Charles Clore; and one of the two vice-chairmen is Mr Frederick William Lindgren, F.C.A.

The group owns properties in 280 cities, towns and boroughs in the United Kingdom. Pictures in the annual report include the 'topping out' ceremony last May on the Pan-Am building in New York, 830 feet up. Many of the new 'skyscrapers' in London and the provinces belong to City Centre – or Cotton-Clore – and there is a long list of outside interests with which the company is linked. Joint companies have been formed with pension funds like those of I.C.I., Imperial Tobacco and Unilever; and with such big interests as the British Transport Commission.

# Camp Bird

REFERRING to the point of Camp Bird proxy validity in this column last week it was stated that 'this particular episode in the company's history, in fact, provides another instance of the vital need in company administration to get things right.' It should be made clear that the comment was intended in general terms. The form of proxy which gave rise to the confusion was not the fault of the secretarial department of the Camp Bird company. The fault lay in the form of proxy issued by Investors' Protection Facilities Ltd.

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PORT OF LONDON AUTHORITY	t for the water ended 31st Masch 1
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1961	2,899,175 2,594,074 183,201 5,676,450	2,512,797 6,145,138 8,657,935	268.310	476,071	1,689,708	16,782,515					574,938	22,243	167,894 91,358 890,588			
<b>u</b> i	5,378,986	9,052,530	249,916	484,144	1,671,834	16,849,090					•		061'966			,
REVENUE  BOCKS AND WAREHOUSES CHARGES, DUES ETC	On vessels  Disclarging and extra charges 2,269,888  Graving dock charges 172,205	On goods Outwards	Railway rates and tolls (including proportion of through rates)	RENTS OF LAND, FIXED BERTHS AND OTHER PREMISES	HIRE OF PLANT, SUPPLIES TO TENANTS ETC CANAL TOLLS			-			RIVER CHARGES, DUES ETC Tonnage dues 625,656	:: <sup>]</sup>	RENT OF ACCOMMODATIONS, LICENCES ETC 231,815 HIRE OF PLANT, SUPPLIES TO TENANTS ETC			
1961	112,367 434,585 65,467 66,467 349,081 145,284 385,109	183,434 270,344 2,088,153 534,070	602,615 8,653,193 287,236	589,885 613,382 660,622	86,293 19,301 86,808	11,695,817	18,088	35,374	146,564	1 1	7,699 53,090 105,087	261,618	72,478 29,574 55,884 32,044 16,239 7,478	75,794	326	982
£ 848,462		2,448,643 392.527				11,849,269	18,086 234,059		141,983	23,733		171,287 228,418		, 297 760	532	1,095
EXPENDITURE  BOCKS AND WAREHOUSES  SUPERINTENDENCE	MAINTENANCE AND RENEWAL  Supervision  Docks, quays and wharves  Roads, fences and boundaries  Warehouse and scorage buildings  Power stations and plant  237,239  Cranes, conveyors and other plant  415,350	Floating plant	, in	Impounding and pumping	Floating grain elevators 72,226 Floating cranes 94,663 Other operating expenses 105,123		RATES	• GENERAL CHARGES 34,286 Telephones 107,697		RIVER SUPERINTENDENCE	MAINTENANCE AND RENEWAL Supervision 58,419 Floating plant 58,419 Piers, moorings, banks etc 105,687	DREDGING (including maintenance and renewal of dredging plant)	OPERATING EXPENSES Harbour inspection Piers and landing stages Mooring and wreck raising Surveys Toil collection and craft registration 15.546 Purification	sting expenses	RENTS	RATES

5	4	1	

November	17th,	1962

,	20,689,386 20,598,600															£20,689,386 £20,598,600
					NOTES	(a) The amount chargeable in respect of super-	Pension Funds includes annual payments	under Section 7 (3) (d) and 8 (2) of the Port	of London Act, 1928, of £381,078 and £3,960 under Clause 20 of the Widows' and Orthans'	Pension Fund Trust Deed, 1955.	(b) Expenditure debited to Provision for Renewal	amounted to £744.052, and compares with	£831,766 debited in respect of the year ended			
25,978	70,399	16,301,964	94,854	961,538		659,266	39,541		37,740	19.969	19,060	204,313	1,135,932	18,524,288	2,074,312	£20,598,600
, ás	- 66,287	16,728,537	126,229	1,012,948		m.c				. ~		n 1	1,223,589	19,091,303	1,598,083	£20,689,386
Okelon		•				760,978	42,72	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	37,660	20,105	19,291	7.7,730				
POVEREZES		,	INDUSTRIAL CANTEENS Excess of working expenses over income	SUPERAN NUATION CONTRIBUTIONS TO'AUTHORITY'S PEN- SION FUNDS AND ORPHANS' PENSION FUND AND ALLOWANCES See opposite—Note (a)	GENERAL ADMINISTRATION EXPENSES	Salaries and wages	Law and parliamentary charges	Composition stamp duty amd management	Stationery and stores	Postages and telephones	Advertising and public notices			Balance carried to Net Revenue Account (State.	ment No 8)	•

# No 7 Revenue Account-Warehouses

Omitted under Section 109 (1) of Port of London (Consolidation) Act, 1920, by agreement between the Port of London Authority and the Association of Public Wharfingers of the Port of London and merged with No 6

# No 8 Net Revenue Account for the year ended 31st March 1962

3 1961	2,074,312	55,355	235,318	51,430	11.427	261,756	2,634,243	37,730		£100,000
7	1,598,083		237,579	27,341	14,829	41,892	2,638,251	Hotelsecons	500,000	£718,527
ч		153,241 57,529 26,809								
	:	:::	: 1	:4	<u>;</u> ;	::		:	:ÿ:	
•	:	:::	:	:2	:	equirec		:	BALA:	
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	stement eld for	:::	!	:	liture	down		SEOVE	TO GENERAL	
į	ount (st ENTS h	spun		: 2	expend.	vious y		down	CARRIED ENT No 9)	
	balance from Revenue Account (Statement No 6)	Stock (Redemption) Funds General Reserve Fund Other purposes		OTHER INTEREST  DEPOSE TIES OF BECHASED END DOCK EXTENSION AND	EXCESS of income over expenditure	INCOME 1AX DEFICIT FOR THE YEAR carried down		Surplus for the year brought down	CARRIED CARRIED (17)	
c	E Z	Stock (Redemption) F General Reserve Fund Other purposes		TERES	of inco	AX ion mad OR TH		the year	BALANCE (DEFICITION SHEET (STATE)	
	ance iro TEREST	Stock General Other		HER IN	Excess	Provision DEFICIT FOR		plus for	SHEET	
	g Z			28	= ;	žä		Sur	- A	
	61	ひその	00	1 70	160	·3	99	t (m.)	. 0	101
		5545	88	153	28	<del>.</del>	136,000 37,730	12	8	8
1961	259,5	52.68	175,000 275,000	1,375,53	407,523	~	33,6	2,634,24	100,00	£100,000
3 1961	259,5	452. 91.	275,				1 1 136	( )		
3 1961 3	259,5	452; 91; 59.		1,374,208 1,375,	424,898 407, 750,000 600,		136	2,638,251 2,634,		£718,527 £100
3 1961 F	259,509 259,50 62,467 62,44	452,511 452, 90,274 91,50 59,500 59,	174,947 175, 275,000 275,				138	( )		
3 1961 F F	259,509 259,5	452,511 452, 90,274 91,- 59,500 59,-		1,374,208	AT 750,000	89,145 ent	11	( )		
7 1961 7	52.457 62.467 62.4	452,511 452,512 452,52,500 59,500 59,500 59,500		1,374,208	AT 750,000	89,145 ent	11	( )		
7	::	:::	774,947	1,374,208	AT 750,000	89,145 ent	11	( )	718,527	
7	::	:::	774,947	1,374,208	AT 750,000	89,145 ent	11	( )	718,527	
7	::	:::	774,947	1,374,208	AT 750,000	89,145 ent	11	( )	718,527	
7	::	:::	774,947	1,374,208	AT 750,000	89,145 ent	11	( )	718,527	
7	::	:::	774,947	1,374,208	AT 750,000	89,145 ent	11	( )	718,527	
7	::	34 per cent Registered Stock 1965-75	774,947		AT 750,000	OKANCE FUND	11	( )		

# PORT OF LONDON AUTHORITY No 9 General Balance Sheet at 31st March 1962

No 9 General Balance Sneet at 31st March 1961	ų	(STATEMENT No 4) 50,982,890 49,751,316	INVESTMENTS BRITISH AND DOMINION GOVERNMENT, CORPORA- TION, AND PUBLIC BOARD STOCKS HELD FOR Stock (Redemotion) Funds	1,000,000	Insurance Fund (1,068,634 100-1961 £832,834 557,658 1,399,433 Unappropriated (1,399,433	Market Value 1.557,967—1961 1.1,387,103 7,272,745 8,209,953																			
No 9 General Balance	3 1961 3	8 450 299	0,030,427   12,930,424   2,588,483   700,000	•	37,584,889 37,653,989	4,241,886	5,653,968	5,485,352	11,139,320	2,999,250	8,140,070	12,798,790 12,381,956	3,807,848		633,000	136,000	מיסייבו ז	1	1,400,000		1,500,000	1,011,018	77,455	1,123,093	54,459
	ч	0 750 799	8,650,299 1,784,783 12,921,224 2,533,183	5,000,000		4,624,620		_			8,174,170		3,807,848			000 00%	767,000				1,000,000,				
	CAPITAL LIABILITIES	MENT No 2)	3 per cent "A" Stock 1979-99 34 per cent Registered Stock 1965-75 (7 34 per cent Registered Stock 1965-65 35 per cent Registered Stock 1960-65	34 per cent Registered Stock 1966-68 54 per cent Registered Stock 1975-78 54 per cent Registered Stock 1975-78	CAPITAL REDEMPTION ACCOUNTS STOCK (REDEMPTION) FUNDS (STATE-	MENT No 3) (investment at cost per contra £4,624,620)	No I)	demption) Funds and applied in exer- cise of borrowing powers (Statement 5, 485, 352 No 1)	11,208,420	tess sums written on capital expensi- ture in respect of demolished pro- perties, expenses of Port of London Acts etc 3,034,250			WAR DAMAGE WAR DAMAGE Balance of compensation received under the War Damage (Public Utility Undertakings etc) Act, 1949	REVENUE CONTRIBUTIONS TO CAPITAL	Balance at 31st March 1961 769,000 Add Transfer from Net Revenue Account	(Statement No 8)	•	REVENUE RESERVES and NET REVENUE ACCOUNT GENERAL RESERVE ELIND	Balance at 31st March 1961 1,500,000 Add Transfer from Net Revenue Account	Less Transfer to O Net Revenue Account (Statement No 8) 500,000	(Investments at cost per contra	INSURANCE FUND Balance at 31st March 1961  1,068,634	Transfer from Nex Revenue Ac- count (Statement No 8) 89,145	1,194,753	Less Losses, Pensurances etc during the year, after adjustment of income 104.286

9th July 1962

Add Net prose on sale of investments during the year	21,765			107,885	DEBTORS AND PAYMENTS IN ADVANCE 1,663,558 ACCRUED CHARGES, DUES, RENTS ETC 1,856,801	Í	1,835,418	No
•		436,416		414,651	RECOVERABLE EXPENDITURE 80,400		84,292	oven
NET REVENUE ACCOUNT Balance at 31st March 1961	694,716		•	756,986		4,125,620	4,274,046	nber
Less Balance (Deficit) for the year ended 31st March 1962 (Statement No 8)	218,527			62,270	Short-term loans to local authorities	I	100,000	17tl
		476,189		694,716	:	ì	148,348	h, i
	•		3,003,072	3,779,001	Balances at bank and cash in hand	ı	111,690	196
PROVISIONS PROVISION FOR RENEWAL OF MACHI-							4,634,084	2
NERY AND PLANT Amount unexpended at 31st March 1961		812,561		1,044,327				
Add Transfer from Net Revenue Account (Statement No 8)		750,000	,	0000'09	,			٠.
t Less Expenditure during the year	•	1,562,561		1,644,327		·		
	•		818,509	812,561				
	2.898.575			2.845.203			٠	
REVENUE ETC COLLECTED IN ADVANCE	357,538			364,621				
ON PORT STOCKS	180,914			181,174				A
		3,437,027		3,390,998				C
HAND £9,090		162,120						CC
	•		3,599,147	3,390,998				тні <b>U</b>
			£62,381,255	£62,595,353		£62,381,255	£62,595,353	B NT.
NOTES								Al
<ol> <li>The borrowing powers of the Authority are shown in Statement No 1.</li> <li>Under the Port of London Act, 1928, Sections 7 (3) (d) and 8 (2) the Authority are liable to pay</li> </ol>	shown in St 7 (3) (d) and	atement No I.	I. thority are lia	ble to pay	NOWIS			νT

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Chairman of the Authority

J. TAIT

Under Clause 20 of the Port of London Authority (Upper Division Staff). Widows' and Orphans' Pension Fund Trust Deed, 1955, the Authority are liable to pay out of gross revenue, to secure the solvency of the Pension Fund, an annual sum of £3,960 for a period of Zf years from 31st March 1958.

4. Under Clause 8 of the Port of London Authority (Industrial Division Staff) Pension Fund Trust Deed, 1959, the Authority have given certain guarantees to secure the solvency of the

Pension Fund.

There were outstanding contractual commitments at 31st March 1962 in respect of capital expenditure, estimated to amount to £1,985,000.

2. Under the Port of London Act, 1928, Sections 7 (3) (d) and 8 (2) the Authority are liable to pay out of gross revenue, to secure the solvency of the Pension Fund, annual sums as under

(a) £67,672 for a period of 40 years from 1st April 1929 (b) £34,795 for a period of 40 years from 1st April 1939 (c) £133,517 for a period of 30 years from 1st April 1954 (d) £145,094 for a period of 40 years from 1st April 1959

Chairman of the Finance Committee

E. P. J. LUNCH

Chief Accountant

DELOITTE, PLENDER, GRIFFITHS & CO. Chartered Accountants

# Report of the Auditors to the Port of London Authority

As Auditors appointed by the Ministry of Transport under Section 109 of the Port of London (Consolidation) Act, 1920, we report that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Authority so far as appears from our examination of those books. We have examined the above Balance Sheet and annexed Revenue Accounts which are in agreement with the books of account. In our opinion, and to the best of our information and according to the explanations given to us, the said Balance Sheet, and the Revenue Accounts, together with the notes thereon, respectively, give a true and fair view of the state of affairs of the Authority as at 31st March 1962, and of the operating results for the year ended on that date.

5 London Wall Buildings, London, E.C.2.

# CITY NOTES

So long as it can keep free of political and international 'alarums and excursions' the stockmarket seems to have a reasonable prospect of settling in to better times. Inevitably the change from recession to improvement is likely to be a ragged affair.

Hopes for the future are going to come up against the facts of the past. Buyers of equities on a long-term recovery basis will be sharply reminded that industrial profits have been, and still are, under pressure.

The equity market, however, seems to find some encouragement from the signs that the authorities are returning to the task of prompting lower long-term interest rates. The task was rudely upset by the Cuba developments when, in a week, the gilt-edged market virtually lost the ground so laboriously gained over the previous two months.

At the peak of the gilt-edged rise, Corporation  $5\frac{1}{2}$  per cent loans were being offered at only one point discount on par. The Corporation loan queue was moving quite quickly through the market but the door was closed when the market fell.

It is likely to open again before long, provided the market prompting process proves successful. Some local authorities are known to have had their names down on the borrowing list for five years.

Overall, with buyers, the stock-market prospect looks at least a little less discouraging than it did. There are grounds for confidence, but in the longer, rather than the shorter, term.

### RATES AND PRICES

Closing prices, Wednesday, November 14th, 1962
Tax Reserve Certificates: (interest rate) 25.8.62 21%

	(Microst Tate) 25 0 02 22/0
Bank	
Oct. 27, 1960 5½%	Nov. 2, 1961 6%
Dec. 8, 1960 5%	Mar. 8, 1962 $5\frac{1}{2}\%$
July 26, 1961 7%	Mar. 22, 1962 5%
Oct. 5, 1961 $6\frac{1}{2}\%$	April 26, 1962 $4\frac{1}{2}\%$
Treasu	ry Bills
Sept. 7 £3 14s 4.55d%	Oct. 12 £3 128 3.07d%
Sept. 14 £3 138 11.97d%	Oct. 19 £3 14s 8.22d%
Sept. 21 £3 14s 0.01d%	Oct. 26 £3 17s 2.03d%
Sept. 28 £3 12s 8.42d%	Nov. 2 £3 16s 11.48d%
Oct. 5 £3 12s 4·13d%	Nov. 9 £3 17s 1.60d%
Money	, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
Day to day 27-37%	Bank Bills
7 days 21-31%	2 months 4-4 18 %
Fine Trade Bills	3 months 4-4 18 %
3 months 5½-6%	4 months 4-418%
4 months 5½ 6%	6 months 4-4 16 %
6 months 5½-6½%	0 months 4 4 18 /6
Foreign E	vohandee
New York 2.80 3 2	Frankfurt 11.22
New York $2.80\frac{3}{32}$ Montreal $3.01\frac{7}{8}$	Frankfurt 11.22 \$ Milan 1738 \$ \$
New York         2.80 \frac{3}{32}           Montreal         3.01 \frac{7}{6}           Amsterdam         10.09\frac{3}{4}	Frankfurt 11:22\\ Milan 1738 \\ \\ Oslo 20:03 \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\
New York $2 \cdot 80 \cdot \frac{3}{32}$ Montreal $3 \cdot 01 \cdot \frac{7}{4}$ Amsterdam $10 \cdot 09 \cdot \frac{3}{4}$ Brussels $139 \cdot 30 \cdot \frac{1}{2}$	Frankfurt 11.22\frac{3}{8} Milan 1738 \frac{15}{15} Oslo 20.03\frac{1}{4} Paris 13.72\frac{1}{2}
New York         2.80 3/32           Montreal         3.01 7/8           Amsterdam         10.09 3/4           Brussels         139.30 1/2           Copenhagen         19.38 7/8	Frankfurt 11.22\frac{3}{8} Milan 1738 \frac{15}{15} Oslo 20.03\frac{1}{4} Paris 13.72\frac{1}{2} Z\text{"urich} 12.08\frac{5}{8}
New York $2 \cdot 80 \cdot \frac{3}{32}$ Montreal $3 \cdot 01 \cdot \frac{7}{4}$ Amsterdam $10 \cdot 09 \cdot \frac{3}{4}$ Brussels $139 \cdot 30 \cdot \frac{1}{2}$	Frankfurt 11.22\frac{3}{8} Milan 1738 \frac{15}{15} Oslo 20.03\frac{1}{4} Paris 13.72\frac{1}{2} Z\text{"urich} 12.08\frac{5}{8}
New York         2.80 3/32           Montreal         3.01 7/8           Amsterdam         10.09 3/4           Brussels         139.30 1/2           Copenhagen         19.38 7/2           Gilt-e	Frankfurt 11.22\frac{3}{8} Milan 1738 \frac{16}{16} Oslo 20.03\frac{1}{6} Paris 13.72\frac{1}{2} Z\text{"circh 12.08\frac{5}{8}}  dged Funding 3\frac{7}{8} 50-60 00\frac{1}{6}
New York 2.80 32 Montreal 3.01 7	Frankfurt 11.22\frac{3}{8} Milan 1738 \frac{16}{16} Oslo 20.03\frac{1}{6} Paris 13.72\frac{1}{2} Z\text{"circh 12.08\frac{5}{8}}  dged Funding 3\frac{7}{8} 50-60 00\frac{1}{6}
New York 2.80 32 Montreal 3.01 7	Frankfurt 11.22\frac{3}{8} \\ Milan 1738 \frac{16}{16} \\ Oslo 20.03\frac{1}{2} \\ Paris 13.72\frac{1}{2} \\ Z\text{urich 12.08\frac{5}{8}} \\ dged \\ Funding 3\frac{5}{9}-69 \\ Savings 3\frac{6}{6}-70 \\ 88 \frac{3}{8} \\ \end{array}
New York 2.80 32 Montreal 3.01 7	Frankfurt 11.22\frac{3}{8} \\ Milan 1738 \frac{16}{16} \\ Oslo 20.03 \frac{1}{2} \\ Paris 13.72\frac{1}{2} \\ Z\u00fcrich 12.08\frac{3}{8} \\ dged \\ Funding 3\% 59-69  \text{Savings 3\% 60-70}  \text{88 \text{38}} \\ Savings 3\% 65-75  \text{82\frac{3}{4}} \end{array}
New York   2 · 80 · 32	Frankfurt 11.22\frac{3}{8} \\ Milan 1738 \frac{16}{16} \\ Oslo 20.03\frac{1}{8} \\ Paris 13.72\frac{1}{2} \\ Z\u00fcrich 12.08\frac{5}{8} \\ dged \\ Funding 3\% 59-69 \\ Savings 3\% 65-75 \\ Savings 2\frac{1}{2}\% 64-67 \\ 91\frac{1}{8} \\ Savings 2\frac{1}{2}\% 64-67 \\ 91\frac{1}
New York 2.80 32 Montreal 3.01 5 Amsterdam 10.093 139.30 5 Copenhagen 19.38 6 Consols 4% Consols 2½ 6 683 44 5 Conversion 5½ 1974 100 6 Conversion 5½ 1974 100 6 Conversion 3½ 1969 93 16	Frankfurt 11.22\frac{3}{8} Milan 1738\frac{16}{16} Oslo 20.03\frac{1}{16} Paris 13.72\frac{1}{2} Z\u00fcrich 12.08\frac{5}{8}  dged  Funding 3\u00e9 59-69 90\frac{1}{2} Savings 3\u00e9 65-75 82\frac{3}{4} Savings 2\u00e1\u00e9 64-67 91\u00e1 Treas'ry 5\u00e1\u00e9 2008-12 96\u00e3
New York  Montreal  Amsterdam  Brussels  Copenhagen  Consols 4%  Consols 2½%  Conv'sion 5½%  1974  1974  1974  1974  1975  Conversion 3½%  1969  Conversion 3½%  Conversion 3½%  Conversion 3½%  Conversion 3½%  Conversion 3½%	Frankfurt 11.22   Milan 1738   Oslo 20.03   Paris 13.72   Zürich 12.08    dged   Funding 3% 59-69 90   Savings 3% 65-75 82   Savings 3% 65-75 82   Savings 2½% 64-67 91   Treas'ry 5½% 2008-12 96   Treasury 5% 86-89 92
New York   2.80 32	Frankfurt 11.22\frac{3}{8} Milan 1738 \frac{16}{16} Oslo 20.03\frac{1}{16} Paris 13.72\frac{1}{2} Z\tirch 12.08\frac{5}{8} dged  Funding 3% 59-69 90\frac{1}{2} Savings 3% 60-70 88 \frac{1}{18} Savings 3% 65-75 82\frac{3}{4} Savings 2\frac{1}{2} % 64-67 91\frac{1}{4} Treasury 5\frac{1}{2} % 2008-12 90\frac{1}{2} Treasury 5\frac{1}{2} % 86-89 92\frac{1}{4} Treasury 3\frac{1}{2} % 77-80 79\frac{5}{2} \frac{1}{2} \frac{1}{2} % \frac{1}{
New York  Montreal  Amsterdam  Brussels  Copenhagen  Copenhagen  Consols 4%  Consols 2½%  Conversion 5½%  Conversion 5½%  Conversion 3½%  Funding 5½%  82-84  102½	Frankfurt 11.22\frac{3}{8} Milan 1738 \frac{15}{15} Oslo 20.03\frac{1}{15} Paris 13.72\frac{1}{2} Z\text{Urich 12.08\frac{1}{3}} 12.08\frac{1}{3} Paris 13.72\frac{1}{2} 2\text{Urich 12.08\frac{1}{3}} 12.08\frac{1}{3} Paris 12.08\
New York 3.80 3.21 Montreal 3.01 Montreal 3.	Frankfurt 11.22\frac{3}{8} Milan 1738 \frac{16}{16} Oslo 20.03\frac{1}{16} Paris 13.72\frac{1}{2} Z\text{Urich 12.08\frac{5}{3}} dged  Funding 3\% 59-69 90\frac{1}{2} Savings 3\% 60-70 88 \frac{3}{3} Savings 3\% 65-75 82\frac{3}{4} Savings 2\frac{1}{2}\% 64-67 91\frac{1}{2} Treasury 5\frac{1}{2}\% 2008-12 96\frac{3}{2} Treasury 5\frac{1}{2}\% 77-80 79\frac{5}{2} Treasury 3\frac{1}{2}\% 77-80 79\frac{5}{2} Treasury 3\frac{1}{2}\% 79-81 79\frac{5}{2} Treasury 2\frac{1}{2}\% 43\frac{3}{2}
New York  Montreal  Amsterdam  Brussels  Copenhagen  Copenhagen  Consols 4%  Consols 2½%  Conversion 5½%  Conversion 5½%  Conversion 3½%  Funding 5½%  82-84  102½	Frankfurt 11.22\frac{3}{8} Milan 1738 \frac{15}{15} Oslo 20.03\frac{1}{15} Paris 13.72\frac{1}{2} Z\text{Urich 12.08\frac{1}{3}} 12.08\frac{1}{3} Paris 13.72\frac{1}{2} 2\text{Urich 12.08\frac{1}{3}} 12.08\frac{1}{3} Paris 12.08\

# Current Law

# Winding-up Opposed: Petitioner to Pay Costs

In Re Riviera Pearls Ltd ([1962] 2 All E.R. 194, note) the company was already in voluntary liquidation when a judgment creditor (another limited company) sought a winding-up order on the ground that the respondent was insolvent and unable to pay its debts, and that it was just and equitable that it be wound up. The petition was opposed by the company and by the majority in value of the creditors, who supported the continuance of the voluntary liquidation.

Pennycuick, J., said that when there was an existing voluntary liquidation, and a creditor petitioned for a compulsory winding-up, he must show some reason beyond the mere existence of his debt why the Court should make an order. In the present case no evidence had been filed for the petitioner except a formal affidavit verifying the petition. It was accepted that the petition must, in view of the opposition to it, be dismissed, and, in the absence of further evidence,

the petitioner was ordered to pay the costs of the petition.

This case illustrates further the fact – apparent from Re A. E. Hayter & Sons (Portchester) Ltd ([1961], 2 All E.R. 676), already referred to in these columns) – that an unsuccessful petitioner will not be likely to recover costs unless he had good reason for presenting his petition and made his reason for so doing entirely clear.

# Petition by Judgment Creditor

In Re William Hockley Ltd ([1962], 2 All E.R. 111) a judgment creditor (itself a limited company) sought a winding-up order on the ground that the respondent company was insolvent and unable to pay its debts. The petitioner had recovered judgment on December 29th, 1961, and its solicitors had been informed by the sheriff's officer on January 22nd, 1962, that he held two prior executions against the company and that the available effects would not realize, under a forced sale, sufficient to satisfy all executions. Nevertheless, on February 6th the company paid to the sheriff a sum sufficient to discharge the judgment debt. On the following day the sheriff's officer notified the judgment creditor's solicitors

accordingly and informed them that a cheque would be sent on February 21st, this date representing the end of the period of fourteen days during which the sheriff is required, under section 326 (2) of the Companies Act, 1948, to hold the proceeds of an execution, or money paid to avoid sale, against the possibility of a winding-up supervening during that period. On the same day the judgment creditor presented its petition. The petition was not supported by any other creditors, nor were there any opposing creditors.

Pennycuick, J., refused to make an order, because, in default of an order, the petitioner had an unconditional right to payment by the sheriff's officer. The petitioner asked for costs on the ground that it was, at the time when the petition was presented, a contingent creditor within section 224 (1) of the Act. Pennycuick, J., held that the petitioner was not a contingent creditor, because the judgment debt was extinguished by payment to the sheriff; thereafter the petitioner could never again have a claim against the company whilst a going concern for the debt. Accordingly, it must pay the costs of the petition.

## Delivery of Goods on Sale or Return

THE plaintiff in Poole v. Smith's Car Sales (Balham) Ltd ([1962], 2 All E.R. 482) was a dealer in motorcars. At the end of August 1960 he delivered two cars to the defendant company under an agreement which the Court of Appeal found to be one of delivery 'on sale or return', within the meaning of rule 4 of section 18 of the Sale of Goods Act, 1893, which provides that:

'When goods are delivered to the buyer on approval or "on sale or return" or other similar terms the property therein passes to the buyer:

 (a) When he signifies his approval or acceptance to the seller or does any other act adopting the transaction;

'(b) If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, then, if a time has been fixed for the return of the goods, on the expiration of such time, and, if no time has been fixed, on the expiration of a reasonable time. What is a reasonable time is a question of fact.'

One car was duly sold and paid for in September. In October the plaintiff asked for the return of the other car, and made repeated and unsuccessful requests until November 7th, when he wrote a letter to the defendant company in which he said that if the car was not returned by the 10th, it would be deemed to have been sold to the defendant. The car was not returned by the 10th, and when at last returned it was in bad condition. The plaintiff rejected it and brought an action in which he claimed either £325 as the price of the car sold and delivered, or the return of the car or £325, its value, and £74 for its detention and use.

The Court of Appeal (allowing an appeal from the judge of the Mayor's and City of London Court) held that there had been a sale of the car and the plaintiff

was entitled to the price. The Court took judicial notice of the fact that the seller's market for second-hand cars is not so good in October and November as in July, August and September, so that a reasonable time for the return of the car in question had expired, certainly in November.

### **Election Between Benefits**

If a testator purports to dispose of property of another, and at the same time gives that person property of his own, the doctrine of election requires that the person concerned must elect whether he will keep his own property and surrender an equivalent value of the benefits given to him by the will, or take entirely under the will. The testator in Re Mengel's Will Trusts, Westminster Bank Ltd v. Mengel and Others ([1962], 2 All E.R. 490) by clause 2 of his will made the following dispositions in favour of his wife if she should survive him by thirty days:

'(a) I give devise and bequeath to her free of all duties all my personal and household goods and effects for her own use and benefit absolutely and (b) I give devise and bequeath all the remainder of my property of whatsoever nature and wheresoever situate to my trustees upon trust... for my said wife for and during her life.'

Although he died domiciled in England the testator was domiciled in Denmark at the date of his marriage and the Danish law of community of assets applied to all property of the spouses acquired during the marriage and not disposed of during their joint lives.

Buckley, J., found that the testator could not have intended, in disposing of 'all my personal and household goods and effects', to bequeath an undivided interest in the personal property and household goods and effects which were his ostensible property, but must have purported to dispose of the whole property in such 'personal and household goods and effects' as would have belonged to him had he not been subject to the Danish law of community of property. As it was, the subject-matter of the bequest was not wholly his, the doctrine of election applied, and his widow was bound to elect between the benefits conferred on her by the will and the benefits conferred on her by Danish law. In regard to the life interest in residue, however, his lordship saw no reason to treat the reference to 'all the remainder of my property' as extending to anything which was not in fact the testator's property, so that in regard to it his widow was not put to her election. By clause 3 the testator gave, subject to the provisions of clause 2 and to the extent only that they might not be operative, '(i) To my niece . . . my library of books. (ii) To my nephew . . . my collection of etchings and mountain photographs.' Buckley, J., held that, reading clauses 2 and 3 side by side, it was reasonably clear from the context of clause 3 that the testator did not regard the library or the etchings and photographs as being 'personal and household goods and effects' and accordingly they did not pass to the widow underclause 2(a).

# Taxation Case

A full report of the case summarized in this column will be published, with a Note on the Judgment, in the 'Annotated Tax Cases'.

C.I.R. v. Henry Ansbacher & Co

In the House of Lords - November 1st, 1962 (Before The Lord Chancellor (Lord Dilhorne), Lord Reid, Lord Morris of Borth-y-Gest, Lord Hodson and Lord Pearce)

Stamp duty - Purchase of stock units - Guarantee - Whether collateral auxiliary, additional or substituted security - Whether only or principal or primary security - Stamp Act, 1891, Schedule I - Finance Act,

1949, section 35 (1).

The respondent purchased ordinary stock units of the Oriental Telephone and Electrical Company Limited. The consideration was the payment by a stated date of the sum of 61s for every stock unit, and the payment of another sum which was dependent upon the amount of the compensation receivable from the local government.

By clause 10 of the agreement, which was not under seal, a sum became payable to trustees for the shareholders in the respondent company, and under clause 11 the appellant procured that that payment should be guaranteed, to the extent of £750,000, by

the National Bank Limited. A guarantee to this effect was executed by the bank. It was expressed to be supplemental to the sale agreement, and the bank guaranteed, to the extent of £750,000,

'the due and punctual payment to the trustees of whatever sum shall in the event be payable to the trustees on the second completion date under the

terms of clause 10 of the said agreement'.

The second completion date was the date when the final payment for the stock had to be made. By virtue of section 35 (1) of the Finance Act, 1949, the sale agreement was exempt from stamp duty.

The appellants assessed the amount of stamp duty on the guarantee at 5s per cent, that is to say, at £1,875, and contended that the case was within the

heading,

'mortgage, bond, debenture, covenant... Being the only or principal or primary security... for the payment or repayment of money, or within the description, being a collateral, or auxiliary, or additional or substituted security... where the principal or primary security is duly stamped'.

The respondent contended that the correct amount of

duty was 10s.

Held (affirming the decision of the Court of Appeal): the guarantee was a collateral, auxiliary, additional or substituted security to a security not within the description 'mortgage, bond, debenture, covenant', and was not an 'only, principal or primary security'; and was liable to a stamp of only 10s.

# Correspondence

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

# **Data Processing Discussion Group**

SIR, - I am writing to suggest that the time may be ripe for a Data Processing Discussion Group to be formed under the auspices of the London and District Society of Charered Accountants.

There has been a very rapid expansion in the use of mechanical and electronic equipment for accounting purposes. It is estimated, for instance, that there will be about two hundred computers in use in this country for business purposes by the end of this year and that this will grow by about one hundred a year during the next few years. It is also believed that the predominant uses of these machines are accounting ones and that some 50-60 per cent of all types of 'mechanical' accounting equipment are installed in London and its environs.

For these reasons, I believe that there may now be considerable support for a discussion group of this kind among members of the Institute in the London area. Would those members interested please write to me at the address below? Yours faithfully,

4 Copthall Avenue, London EC2. J. P. HOUGH.

### **Audit of Pension Fund Accounts**

SIR, – In recent years some accountants have asked trustees to include a note on each balance sheet that the actuary's last quinquennial valuation report disclosed a surplus or deficiency of a stated amount and I am wondering if this is not a very dangerous practice.

By including a reference to the actuary's valuation report, I suggest that the members of the fund have a right to assume that the auditor has examined the report and is satisfied with it; but in fact the auditor

is not competent to pass judgment on it.

Further, an actuary prepares his valuation report from information supplied by the trustees of the fund or their secretary, and if by accident or design, say, the pensionable service or salary of some members is shown as less than actual, the liability of the fund to its membership will be understated, and although a surplus is mentioned on the balance sheet there could, in fact, be a large deficiency. In this event, I suggest that the members would have a claim against the auditor, especially if he could not prove that he had taken reasonable steps to ensure that the information given to the actuary was correct. So far as I know, there is usually very little (if any) direct contact between the actuary and the auditor of a pension fund.

Yours faithfully,

Oxted, Surrey.

R. S. MOORE, A.C.I.S.

### General Store: Gross Profit

SIR, - I have recently been concerned with the accounts of a village general store and I wonder if any of your readers could give me an indication of the gross profit percentage that could be expected from this type of business at the present time.

For information the annual turnover is approximately £15,000, mainly from the sale of groceries, tobacco and sweets.

Yours faithfully,

EDWIN.

### Internal Control with a Computer

SIR, — I have read with interest Mr R. Mitchell's article on 'Internal control with a computer'. (November 3rd issue). In the course of his article Mr Mitchell gives an example of parity checks on transfers. From his example it would seem that this is no check on the parity, as even parity is used. Even parity was used on a number of computers, but the majority of computers in production at present use odd parity. Similarly, a parity bit is added to each character on most machines in order to indicate which character is incorrect should an error arise.

If even parity is used, should the information transfer completely fail on a single stream, the information transferred would be acceptable to the computer, as it would pass an automatic check. See Example 1 below.

On the other hand, if odd parity is used the check would fail completely. See Example 2.

Example 3 indicates the use of a character parity or separate parity stream on the information indicating the greater reliability of this feature, or vertical parity as opposed to the longitudinal parity mentioned in the article.

A combination of vertical and longitudinal parity is sometimes employed, as in Example 4, for greater security. On a character machine usually six streams plus a parity stream are employed; on some machines additional parity streams are introduced to enable the computer to automatically trace and correct failures as they occur. The necessary logic to enable this to be done is, however, extremely expensive, and the cost has to be equated with the cost of having to re-process information due to a parity failure. In all this equipment it is the economics of the hardware which must be taken into account when designing the system.

Yours faithfully, Hove, Sussex. J. W. MITCHELL, A.C.A.

[Mr R. Mitchell writes: I am grateful to my namesake for pointing out the limitations of even parity, i.e. a stream failure satisfying the logic. Even parity will do little more than detect the dropping of a single bit which, I believe, is the most common fault. My example was by way of illustration of the parity check technique and was not intended to suggest that even parity was the only, or the best, parity check.]

Stream No.		On	e wo	rd ste	ore		Check bits			On	e wo	rd ste	re			Check Bits	
8	0	0	0	0	0	•	•	8	0	0	0	0	0	•		•	
4	•	•	0	•	0	0	•	4	0	0	0	0	0	0		0	·
2	0	0	•	0	0	0	•	2	0	0	•	0	0	0	·.	•	
r	•	0	•	0	•	•	0	· I	•	0	•	0	•	•		0	
To record	5	4	3	4	r	9		To record	1	0	3	0	I	9			

Example 1. - Failure to read 4 stream does not affect even parity.

Stream No.					Check bits	One word store					Check bits				
8	0	0	0	0	0	•	0	·8	0	0	0	0	0	•	0
4	•	•	0	•	0	0	0	4	0	0	0	0	0	0	0*
2	0	0	•	O	0	0	0	2	0	0	•	0	0	Ο.	0
I	•	0	•	0	•	•	•	r	•	0	•	0	•	•	•
To record		1	-2	1	т_	0									

Example 2. - Odd parity detection. The absence of a bit in the second stream indicates a failure, if correct there must be at least 1 bit.

Stream No.		On	ie wo	rd ste	ore				One	e wor	d sto	re		Check bits
P	•	0	•	0	0	•	P	•	0	•	0	ot	•	0
8	0	0	0	Ö	0	•	8	0	0	0	0	oʻ	•	0
' 4	•	•	0	ě	0	0	4	•	•	0	•	⊚	0	o†
2	0	0	•	0	0	0	2	0	0	•	0	0	0	oʻ
1 ·	•	0	•	0	•	•	I	•	0	•	0	•	•	•
To record	5	4	3	4	1	9	To.record	5	4	3	4	r	9	

Example 3. - Character parity detection.

Example 4. - Combined vertical and longitudinal parity, showing double parity failure indicating incorrect bit misread.

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, November 7th, 1962, at the Hall of the Institute, Moorgate Place, London EC2, there were present:

Mr Percy F. Carpenter, President, in the Chair; Mr Robert P. Winter, C.B.E., M.C., Vice-President; Mr J. Ainsworth, C.B.E., Mr J. F. Allan, Mr W. L. Barrows, Mr T. A. Hamilton Baynes, Mr J. H. Bell, Mr H. A. Benson, C.B.E., Sir William Carrington, Mr G. T. E. Chamberlain, Mr D. A. Clarke, Mr J. Clayton, Mr C. Croxton-Smith, Mr E. Hay Davison, Mr W. G. Densem, Mr S. Dixon, Mr W. W. Fea, Sir Harold Gillett, Bt, M.C., Mr J. Godfrey, Mr G. G. G. Goult, Mr P. F. Granger, Mr L. C. Hawkins, Mr J. S. Heaton, Mr J. A. Jackson, Mr H. O. Johnson, Sir William Lawson, C.B.E., Mr H. L. Layton, Mr R. B. Leech, M.B.E., Mr E. N. Macdonald, D.F.C., Mr R. McNeil, Mr J. H. Mann, M.B.E., Mr R. P. Matthews, Mr W. Bertram Nelson, C.B.E., Mr W. E. Parker, C.B.E., Mr S. J. Pears, Mr F. E. Price, Mr L. W. Robson, Sir Thomas Robson, M.B.E., Mr J. D. Russell, Mr R. G. Slack, Mr D. Steele, Mr J. E. Talbot, Mr A. G. Thomas, Mr A. H. Walton, Mr V. Walton, Mr M. Wheatley Jones, Mr E. F. G. Whinney, Mr J. C. Montgomery Williams, Mr E. K. Wright, Sir Richard Yeabsley, C.B.E.

### The late Sir Harold Montague Barton, F.C.A.

The Council received with much regret notice of the death of Sir Harold Montague Barton, F.C.A., London, a member of the Council from 1928 to 1957 and President for the year 1944-45.

### Resignations from the Council

The Council received with much regret the resignations of Mr Donald Victor House, F.C.A., London, and of Mr Charles Urie Peat, M.C., M.A., F.C.A., London, from their membership of the Council. Mr House had been a member of the Council since 1942 and was President for the year 1954-55. Mr Peat had been a member of the Council since 1944 and was President for the year 1959-60.

### **Audits of Building Societies**

The Council has approved a revised statement on 'Audits of Building Societies' to replace the statement issued in December 1960. The revised statement, which will be issued with the next supplement to the Members' Handbook, takes account of the consolidation of the Building Societies Act, 1960, and earlier Acts into the Building Societies Act, 1962. A copy is being sent to each member (or firm in which members are partners) known to the Institute to be auditor(s) of a building society. A copy will be supplied without charge on application by any other auditor of a building society. Copies in booklet form are available for purchase on application to the offices of the Institute at the price of 5s per copy, post free. (Remittances must accompany orders.)

### **Treasury Scale**

As announced in September, substantial amendments have been made to the Treasury scale of fees for

professional work carried out by firms of accountants for Government departments. The revised scale is effective from April 1st, 1962. The Council decided that copies of the revised scale be distributed to all members.

### Stock Exchange: Accountants' Reports for Prospectuses

The Council authorized for insertion in the *Members' Handbook* a memorandum by the Council of the Stock Exchange, London, regarding reports by accountants with respect to profits, assets and liabilities for purposes of prospectuses, offers for sale, advertised statements and circulars.

### Inland Revenue Practice with regard to a change in the basis of Stock Valuation

The following note has been received from the Board of Inland Revenue in answer to inquiries made by the Institute as to the procedure now followed by the Inland Revenue in cases where there has been a change in the method of computing the amount at which stock-in-trade and work in progress are brought into account:

### CHANGE IN BASIS OF STOCK VALUATION

1. The Revenue accepts any method of computing the value of work in progress and finished stock, which is recognized by the accountancy profession, so long as it does not violate the taxing statutes as interpreted by the Courts. Such a basis is referred to in this note as a 'valid basis'. The expression 'non-valid basis' is used to denote a basis which does not accord with the standard of acceptability referred to in the first sentence of this paragraph, and includes a valuation which, although in form made on a recognized basis, pays insufficient regard to the facts. Having regard to the principle of consistency, there would need to be good reason for any change in an existing valid basis.

### Change from one valid basis to another valid basis

- 2. Where a change from one valid basis to another valid basis is accepted, certain consequences normally follow. The opening stock of the basis year of change is valued on the same basis as the closing stock. Whether the change is to a higher level or to a lower level, the Revenue normally does not seek to revise the valuations of earlier years. It neither seeks to raise additional assessments, nor does it admit relief under the 'error or mistake' provisions.
- 3. It is not possible to define with precision what amounts to a change of basis. It is a convenience, both to the taxpayer and to the Revenue, not to regard every change in the method of valuation as a change of basis. In particular, the Revenue encourages the view that changes which involve no more than a greater degree of accuracy, or a refinement, should not be treated as a change of basis, whether the change results in a higher or a lower valuation. In such cases the new

valuation is applied at the end of the year without amendment of the opening valuation.

4. What constitutes a good reason for a change in the existing basis is a question to be answered by reference to the facts of each case. Possible examples of such justified changes are that of a company absorbed by a group and adapting its basis to the group's principles, or a concern adjusting its basis to conform to some alteration in the nature of its trade.

### Change from a non-valid basis to a valid basis

5. When a change in the basis of valuation is first made from a non-valid basis to a valid one, the new basis is applied to both the opening and closing values of the year of change. In addition a review is made of past liabilities, but in cases where there is no question of past irregularities (that is, fraud, wilful default or neglect) the Revenue would not in any event seek to recover tax for past years on an amount greater than that involved in the uplift of the opening valuation of the year of change.

### Summer Courses 1962

Emmanuel and Sidney Sussex Colleges, Cambridge Christ Church and Pembroke College, Oxford

The Chairman of the Summer Course Committee reported on the proceedings at Emmanuel and Sidney Sussex Colleges, Cambridge, from July 18th to 22nd, 1962, and at Christ Church and Pembroke Colleges, Oxford, from September 13th to 18th, 1962, and stated that the President had sent letters of appreciation to the speakers, to the governing bodies of the four colleges and the others concerned with the conduct of the courses. The Chairman reported that the programmes and full texts of the addresses for each course had been reproduced in booklet form, price 5s each, similar to those prepared for previous summer courses. An order form had been distributed with the October issue of Accountancy and an appropriate notice inserted in The Accountant.

### Summer Courses 1963

The Council has approved the holding of a course at Christ Church and Merton College, Oxford, from July 11th to 16th, 1963, and a course at Emmanuel College, Cambridge, from September 18th to 22nd, 1963.

#### **Eighth International Congress of Accountants**

The Chairman of the Overseas Relations Committee reported on the Eighth International Congress of Accountants held in New York from September 23rd to 27th, 1962, which was attended by about three hundred members of the Institute.

The Council decided that the following resolution be conveyed to the President of the congress:

'The Council of The Institute of Chartered Accountants in England and Wales congratulates the organizers on the great success of the Eighth International Congress of Accountants and wishes to express its warm appreciation of the hospitality shown to those who attended from the Institute. In particular the Council wishes to thank the President of the congress, Mr Arthur B. Foye, and his colleagues on the organizing committees and also the officers of the congress, including the Secretary, Mr John L. Carey.'

### The American Institute of Certified Public

It was reported to the Council that the President had delivered to the President of The American Institute of Certified Public Accountants the congratulations and best wishes of the Council on the occasion of the seventy-fifth anniversary of the incorporation of The American Institute of Certified Public Accountants in 1887 as The American Association of Public Accountants

### The Canadian Institute of Chartered Accountants

It was reported to the Council that the President had sent to the President of The Canadian Institute of Chartered Accountants the congratulations and best wishes of the Council on the occasion of the sixtieth anniversary of the incorporation of The Canadian Institute of Chartered Accountants in 1902 as The Dominion Association of Chartered Accountants.

#### France

Ordre des Experts Comptables et des Comptables Agréés The Council received a report from the President on his attendance at the seventeenth national congress of the Councils of the Ordre des Experts Comptables et des Comptables Agréés at Dijon from October 19th to 21st, 1962.

### **Increases in Examination and Exemption Fees**

In the annual report for 1961 the Council stated that the Institute's present resources and income will require substantial augmentation to meet expenditure on accommodation and expansion in the scope and extent of the Institute's activities; and that recommendations would be placed before members in due course. The Council's proposals regarding members' subscriptions (which will require alteration of bye-laws) will be announced later and the Council will also give its attention to the question of a registration fee on entry into articles. In the meantime the Council has decided to bring the examination and exemption fees more closely into line with the relevant expenditure, and accordingly each of the following fees is being raised to the amounts shown below:

With effect from January 1s				£	5	d
Certificate of exemption fro examination	m the	··	nary	6	6	0
Entry fees for the May 196 examinations	53 and	subsequ	<i>lent</i>			
Preliminary examination				8	8	0
Intermediate examination						
Final examination		• •		10	10	0

### Prize and Scholarship Funds

The Council has resolved that Chartered Accountants Charities Ltd be appointed trustee (in place of the Institute) of the prize and scholarship funds of which the Institute was trustee.

### Report of the Committee on Education and Training

Note. – Students are requested NOT to apply for copies of the following statement. It will be distributed as soon as possible to all members of students' societies.

At its meeting on August 1st, 1962, the Council

authorized the publication of a first statement of the decisions which it had reached on certain of the recommendations in the Report of the Committee on Education and Training. The Council has now authorized the publication of this second statement. Other recommendations in the report are still under consideration and the Council will make further statements in due course.

In authorizing publication the Council again emphasizes that in the cases marked with an asterisk amendments to the supplemental Royal Charter and/or the bye-laws will be required and that these will be submitted to members in the form of resolutions at a special meeting early in 1963. If these resolutions are adopted by members the amendments will be subject to approval by the Privy Council. Where, therefore, decisions are dependent upon such amendments, no member or student or prospective student should take any course of action based on the assumption that these particular recommendations will be implemented.

As this second statement is a continuation of that dated August 1st, 1962, which covered paragraphs numbered 1 to 40, the following paragraphs are numbered to follow that statement. Where a reference is made in the statement to a recommendation in the Report of the Committee on Education and Training, the number of the recommendation is given in brackets.

### Remuneration of articled clerks

41. The Council has accepted the principle of recommendations (66) to (69) that information should be collected as to the emoluments of articled clerks by way of salary, bonuses and other payments or material benefits.

In the record of proceedings of the Council meeting held on August 1st, 1962, the Council stated that replies received through district societies to a previous inquiry indicated the willingness of members to give information anonymously to the Institute on matters such as fees, remuneration and charging rates. The Council announced its decision that, as soon as possible, a questionnaire should be addressed to all practising members on such matters.

The opportunity is being taken to undertake the inquiry relating to articled clerks as part of this wider survey.

### Study leave

\*42. Recommendation (65) proposes, and the Council has accepted, the retention of a maximum allowance of twelve months' study leave during articled service. The Council has also directed its attention to the maximum allowance for articled clerks who receive exemption from the Intermediate examination; most, but not all, such clerks are at present governed by a maximum allowance of six months. The Council will propose to members alterations in the bye-laws to provide that the maximum allowance of study leave for every clerk who receives exemption from the Intermediate examination shall be eight months.

43. Recommendation (65) also proposes an increase in the minimum period of study leave. The Council proposes to revise as may be appropriate the relevant prescribed provisions in articles.

44. As stated in paragraph 18 of its statement of August 1st, 1962, the Council has decided to examine the scope for assistance from technical and commercial colleges on a wider scale than is envisaged in recom-

mendation (46). Some time must elapse before any decision is reached. It will be necessary to provide for the position of articled clerks in the meantime and, in any event, to distinguish those who receive exemption from the Intermediate examination.

\*45. Accordingly, it is intended that the prescribed provision in articles shall provide study leave of at least four weeks immediately before the first occasion on which a clerk presents himself for each examination together with any study leave to attend courses which may in due course be established. (A two-part Final examination is assumed.)

### Syllabus for the new Intermediate examination

46. Set out in the first appendix is the syllabus for the new Intermediate examination which it is proposed to introduce in September 1964.

### Syllabus for the new Final examination

\*47. Set out in the second appendix is the syllabus for Part I and Part II of the new Final examination which it is proposed to introduce in May 1965 and November 1965, respectively.

### Eligibility for examinations

\*48. In the third appendix the eligibility of articled clerks for both the old and the new examinations is set out in tabular form as follows:

Schedule 1 (OLD examinations): clerks entering into articles between January 1st, 1962, and May 31st, 1962.

Schedule 2 (NEW examinations): clerks entering into articles between January 1st, 1962, and May 31st, 1963.

Schedule 3 (NEW examinations): clerks entering into articles after May 1963, who will be required to sit for the NEW examinations.

### Educational standard for entry into articles

49. In paragraphs 25 to 27 of its statement of August 1st, 1962, the Council announced revised conditions for the standard of entry into articles; these conditions were set out in detail in the appendix to that statement. Consideration has been given to the standard of passes in the recognized examinations in Scotland and Northern Ireland, and the Council has decided as follows:

(a) Scotland

(i) that in the following examinations two passes at the higher grade will be accepted as equivalent to one pass at the advanced level in the general certificate of education examination and that three passes at the higher grade will be accepted as equivalent to two passes at the advanced level:

Senior leaving certificate (Scotland)

Scottish leaving certificate

Scottish universities preliminary examination.

(ii) that in the above examinations a pass at the higher grade in English together with a pass at the lower grade in English will be accepted as equivalent to passes at the ordinary level in English literature and in English language in the G.C.E. examination and that a pass at the higher grade in Mathematics together with a pass at the lower grade in Mathematics will be accepted as equivalent to passes at the ordinary level in two separate mathematical subjects in the G.C.E.

· examination.

### THE ACCOUNTANT

(b) Northern Ireland

(i) that a pass at the advanced level in the Senior certificate examination of Northern Ireland will be accepted as equivalent to a pass at the advanced level in the G.C.E. examination;

(ii) that a pass or a pass with credit at the ordinary level in the Senior certificate examination of Northern Ireland will be accepted as equivalent to a pass at the ordinary level in the G.C.E. examination.

The necessary amendments will be incorporated in the revised regulations which will be set out in the next edition of the booklet General Information and Syllabus of Examinations, to be published at the end of November 1962.

### Term of service under articles

\*50. In paragraph 11 of its statement of August 1st, 1962, the Council announced proposed amendments to the Royal Charter and bye-laws to reduce to four years the term of service under articles for those who obtain a prescribed minimum of passes (including two at the advanced level) in the general certificate of education examinations and who commence service at the age of 18 years or later. If these proposals become effective the Council will for this purpose accept passes in the examinations in Scotland and Northern Ireland as being equivalent to passes at the advanced level in the G.C.E. examination on the basis set out in paragraph 49 above.

### Registration of Articles

The Secretary reported the registration of 490 articles of clerkship during the last month, the total number since January 1st, 1962, being 2,259.

#### Admissions to Membership

The following were admitted to membership of the Institute:

Feeley, Cyril Vincent, A.C.A., a1962; with Holmes-White,

Herbert & Co, 776 Barking Road, London E13. Goddard, Anthony Michael, A.C.A., a1962; 24 Windmill Road, Headington, Oxford.

Gourlay, John Cowden, A.C.A., a1962; 'Martlets', Park Lane, Knebworth Herts.

Hillman, Lloyd, A.C.A., a1962; 24 Fitz James Avenue, London W14.

Hudswell, Ronald Frank, A.C.A., a1962; 28 St Michaels Crescent, Luton, Beds.

Hydrie, Mohammed Abu Muzaffar Hasan, A.C.A., a1962; 12 Concanon Road, London SW2.

Oratis, John Paul, A.C.A., a1962; 7 Leithcote Gardens, Streatham, London SW16.

Taylor, Christopher John Grammer, A.C.A., a1962; High Cross House, Kirkburton, near Huddersfield.

a Indicates the year of admission to the Institute.

aS Indicates the year of admission to The Society of Incorporated Accountants.

Firms not marked † or \* are composed wholly of members of the Institute.

- † Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.
- Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Tidmarsh, Anthony Clive Bickerton, A.C.A., a1962; 'Furzefield', West End Lane, Haslemere, Surrey. Verey, Trevor Ronald, A.C.A., a1962; with Price Waterhouse & Co, Koninginnegracht 86, Den Haag, Holland.

### **Fellowship**

The Council acceded to applications from twelve associates to become fellows under clause 6 of the supplemental Royal Charter.

### **Incorporated Accountant Members becoming Associates**

The Council acceded to two applications from the following incorporated accountant members for election as associates under clause 6 of the scheme of integration referred to in clause 34 of the supplemental Royal Charter:

Conlon, Kieran Joseph, B.A., A.S.A.A., a1959; with Howell, Wade & Co, 10 Gray's Inn Square, London WC1. Farkas, Fritz Erwin, A.S.A.A., aS1956; with R. H. March, Son & Co, Baltic House, Mount Stuart Square, Cardiff.

### **Members Commencing to Practise**

The Council received notice that the following members had commenced to practise:

Agballah, Hyacinth Okoli Petrus, A.C.A., a1962; Petrus Agballah & Co, 39 Zik Avenue, Uwani, Enugu, Nigeria. Alexander-Passe, Harry, A.C.A., a1959; Alexander-Passe, Berke & Co, Cheshire Court, 142 Fleet Street, London

Barnett, Michael, A.C.A., a1961; Cohen, Arnold & Co, Ling House, Dominion Street, London EC2, and 8 City Road, London EC2.

Barrow, (Miss) Elizabeth Dixon, A.C.A., a1954; R. L. Wyllie & Co, 34 Lowther Street, Whitehaven, Cumber-

Bragoli, Bruno Kenneth James, A.C.A., aS1956; \*Chagnon, MacGillivray & Co, 46 Jackson Street East, Hamilton, Ontario, Canada.

Burrough, Graham Frederick, A.C.A., a1957; M. W.

Burrough & Co, 10 South Street, Bridport, Dorset. Budd, John Derek, A.C.A., a1960; de Paula, Turner, Lake & Co, Imperial House, Dominion Street, London EC2. Campsie, Thomas Booth, F.C.A., a1951, aS1948; Hodgson, Harris & Co, National Provincial Bank Chambers, Market Place, Boston, Lincs, for other towns see Hodgson, Harris & Co.

Capey, James Hugh, F.C.A., a1949, aS1948; Hodgson, Harris & Co, 53 Eastcheap, London EC3, for other towns see Hodgson, Harris & Co.
Chetwynd, Richard Walter, A.C.A., a1962; †Singleton, Fabian & Co, Lee House, London Wall, London EC2.

Cluett, Norman Vivian, A.C.A., a1962; 2A Ronald Park

Avenue, Westcliff-on-Sea, Essex.

Cohen, Arnold Judah, A.C.A., a1962; Cohen, Arnold & Co, Ling House, Dominion Street, London EC2, and 8 City Road, London EC2.

Collings, William Glydon, F.C.A., a1940; Mona House, Uplyme, Lyme Regis, Dorset.

Dexter, David Alexander, A.C.A., a1960; \*Potts, Twells & Co, 22/23 Market Place, Loughborough, Leics.

DuBuisson, Peter William Grostête, A.C.A., Fabian & Co, Lee House, London Wall, †Singleton, London EC2.

Dunn, Raymond, A.C.A., aS1956; Holland, Dunn & Co, 24 Galloway Road, Fleetwood, Lancs.

Ellis, Christopher Douglas, A.C.A., a1960; 23 Conway Gardens, Mitcham, Surrey.

Fisher, Bernard James, A.C.A., a1962; S. McCombie & Co, Barclays Bank Chambers, Hitchin, Herts.

Fletcher, John Robert, A.C.A., a1961; H. Overton Salt & Co, 52 High Street, Sutton Coldfield, and at Birmingham.

Flower, John Francis, B.Sc. (BCON.), A.C.A., a1961; George Flower & Son, 64 Sandringham Gardens, North Finchley, London N12.

Fuller, Frank Edwin, F.C.A., a1925; 16 Rugby Road,

Worthing.

Gilchrist, Alec, A.C.A., a1959; Poulsom & Co, and John Larkin & Co, National Bank Building, 24 Fenwick Street, Liverpool 2.

Godfrey, Edward Charles, A.C.A., a1956; Thornton Baker & Co, 8 West Walk, Princess Road, Leicester, and at

Northampton and Spalding.

Green, Kenneth Peter, A.C.A., a1959; Greene, Clements & Co, 20 Bloomsbury Square, London WC1, and at Enfield. Greenhalgh, William Michael, A.C.A., a1961; W. M. Greenhalgh & Co, Morley House, 29 South Street, Farnham, Surrey.

Haase, Ludwig Otto Gerhard, A.C.A., a1958; 12 Brooklane Field, Harlow, Essex.

Harbottle, Philip Richard Milnes, B.A., A.C.A., a1961; Winter, Robinson, Sisson & Benson, 16 Market Street, Newcastle upon Tyne 1.

Hayes, Alan, A.C.A., a1962; Warmsley, Roberts & Hayes, Refuge Assurance Buildings, 56 Ainsworth Street, Blackburn.

Hendre, John Francis, A.C.A., aS1953; James, Edwards & Co, Salisbury House, London Wall, London EC2.

Hope, Kenneth, A.C.A., a1953; H. Overton, Salt & Co, City Centre House, So Union Street, Birmingham 2, and at Sutton Coldfield.

Hordern, Anthony Christopher Shubra, A.C.A., a1959; Howard Smith Thompson & Co, Beaufort House, 96 Newhall Street, Birmingham 3, and at London.

Howard, Stanley Lawrence, A.C.A., a1960; Booth, Ainsworth & Co, Midland Bank Chambers, Cheadle, Cheshire.

Keen, David George, A.C.A., aS1955; D. G. Keen & Co, 191 Park Road, Uxbridge, Middx.

Kevan, Denis Macrae, A.C.A., a1962; Poulsom & Co, and John Larkin & Co, National Bank Building, 24 Fenwick Street, Liverpool 2.

Lewis, Allen Francis, A.C.A., a1960; 20 Avery Row, Brook Street, London W1.

Lowe, David John, A.C.A., a1961; Wm. Chadwick, Noon, Elsworth & Kemp, 11-17 Harrington Street, Liverpool 2. Lunn, Brian William, A.C.A., aS1953; \*R. M. Blaikie & Co, 27 High Street, High Wycombe, and at Marlow.

Lyon, John Frederick, A.C.A., aS1954; Buckle, Fray, Locke & Co, 164 High Street, Southampton; also at 26 Victoria Road, Woolston, Southampton, Buckle, Fray, Locke & Co, and Bernard Buckle, Brooke & Co.

Matthews, David Geoffrey, A.C.A., a1961; 'Forest View', Hadley End, Yoxall, near Burton-on-Trent.

O'Donnell, Patrick Vincent, A.C.A., a1956; H. J. McCranor & Co, 44 Binley Road, Coventry.

Palk, Kenneth Leonard, F.C.A., a1951; M. W. Burrough & Co, 10 South Street, Bridport, Dorset.

Pardoe, John Richardson, A.C.A., a1959; J. R. Pardoe & Co, 'Thornleigh', Summerhill, Kingswinford, Staffs.

Pashley, Philip Addleshaw, F.C.A., a1931; \*Maud & Pashley, Ship Hill, Rotherham.

Penrose, Antony John, A.C.A., a1962; Telegraph Chambers, 89 Fishergate, Preston.

Potter, Vincent Keen, A.C.A., a1961; Hever Castle, Edenbridge, Kent.

Raine, Geoffrey Michael, A.C.A., a1956; Whitehill Marsh Jackson & Co, 103 Promenade, Cheltenham, Glos. Randles, David Harold, A.C.A., a1959; \*Norman Hicks, Griffiths & Randles and Percy R. Hayes & Co, Cross Chambers, New Street, Mold, Flintshire, and at Wrexham. Robins, Reginald James, F.C.A., a1940; 180 County Road,

Swindon, Wilts. Rogers, George Edward, A.C.A., aS1952; 6 Pondwick Road,

Harpenden, Herts. Seed, John Keith, A.C.A., a1962; Ashworth, Treasure & Seed, 27 Park Street, Lytham, Lancs.

Shaw, David Baxter, A.C.A., a1959; Keith Paterson & Co, 139 Norfolk Street, Sheffield 1.

Sinclair, Walter Isaac, A.C.A., a1959; 10 Talbot Crescent, London NW4.

Solkhon, John, A.C.A., a1962; Solkhon, Whaley & Co, Adelphi Terrace House, 2 Robert Street, Strand, London WC2.

Tumbridge, James William, A.C.A., a1955; Griffin Stone, Moscrop & Co, 21 Manchester Square, London W1.

Vinocourt, Amior, A.C.A., a1962; Harold Everett, Wreford & Co, Harford House, 103 Great Portland Street, London W1.

Warman, Clive Robert, A.C.A., a1956; \*Arthur Young & Co, Sungei Gerong, Palembang, Sumatra, Indonesia, for other towns see \*Arthur Young & Co, Arthur Young & Co and Broads, Paterson & Co.

Willats, Peter Henry, A.C.A., aS1955; M. Cullum & Co, Greenways Close, Gold Street, Tiverton, Devon.

Willcox, Eon John Mason, A.C.A., aS1953; Jervis & Willcox,

Stanley House, 22 Albany Road, Wolverhampton.
Willey, Robert Kenneth, A.C.A., a1957; Clifford Hill, Mackelden & Willey, 10 Portland Place East, Tavistock Road, Plymouth.

Wilson, Eric Robinson, A.C.A., a1962; Telegraph Chambers,

89 Fishergate, Preston.

Woffenden, Desmond John Denison, A.C.A., a1954; Gibbons & Vowles, 2 St Paul's Road, Clifton, Bristol 8, and at Keynsham.

Woodley, Arthur Stephen, F.C.A., aS1951; \*R. M. Blaikie & Co, 27 High Street, High Wycombe, and at Marlow.

### Re-admission to Membership

Subject to payment of the amounts required by the Council, three former members of the Institute were re-admitted to membership under clause 23 of the supplemental Royal Charter and two former members under bye-law 38. One application under clause 23 was refused.

### Resignations

The Council accepted the resignations from membership of the Institute of:

Catley, Clare Leslie, F.C.A., aS1938; 95 Castle Road, Scarborough.

Hutcheson, James Blair, F.S.A.A., aS1931; 56 Hillview Terrace, Edinburgh 12.

Kemp, Walter Lowther, F.C.A., a1904; Old Hall Cottage, Holland Road, Frinton-on-Sea, Essex.

Webb, (Miss) Daphne, A.C.A., a1958; Apt B, 2064 Westbury Road, Ottawa 3, Ontario, Canada.

#### Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Barton, Sir Harold Montague, F.C.A., London, a member of the Council from 1928 until 1957 and President 1944-45. Barratt, Herbert William, F.C.A., Birmingham. Cresswell, James, F.C.A., Addiscombe. Denning, Norman Langley, F.C.A., Bristol. Lockett, Charles Jackson, F.C.A., Manchester. Lynas, John, F.C.A., Stockton-on-Tees. McCall, Stuart Scott, F.C.A., Bristol. McNeil, George, F.C.A., London. Plewman, Thomas Leslie, F.C.A., Bedford. Powell, Frederick Arthur, F.C.A., Four Oaks, Warwicks. Round, Arthur Reginald, F.C.A., Dudley. Rountree, Arthur Fitzgerald, O.B.E., J.P., F.C.A., Oldham. Taylor, Edward, F.C.A., Jersey. Whatley, Archibald, F.C.A., London.

#### Presentation of Prizes

Whitaker, Lawrence, F.C.A., Canterbury.

Following the meeting of the Council on November 7th, the President formally presented prizes and

certificates of merit to the successful candidates in the May examinations who were able to attend. Relatives and friends of prizewinners were invited to the ceremony, which was held in the Oak Hall at Moorgate Place and was followed by tea.

In the course of his address Mr Carpenter said:

I would like to welcome you all to the Oak Hall of the Institute.

Among a President's duties, there are few more pleasurable than presenting prizes and certificates of merit to the candidates who have been outstandingly successful in our examinations.

I feel, and I am sure that the Council as a whole feel, that it is very fitting that we should publicly congratulate those who have made such a promising start to their careers.

who have made such a promising start to their careers.

I think it is true to say that in all probability you owe your success to three major factors.

success to three major factors -

Firstly, by possessing natural ability above the average -

this you owe to your parents.

Secondly, by having been well taught or by having been taught to teach yourselves – this you owe to your school-masters, your tutors, your principals, your office colleagues and your Students Societies.

And thirdly to your having done a considerable amount of hard work. This of course you owe primarily to yourselves, helped I trust by the encouragement of your parents and

colleagues.

To those who have passed the Intermediate examination I extend my warm congratulations and hope that you will go on to equal or to greater success in your Final. As you know every successful candidate in the Intermediate examination is told his place in the pass list with a view to enabling him to assess how well he has done, but for obvious reasons in the Final examination only those receiving certificates of merit have this information. The other successful candidates have to rely on their own judgment as to whether they just missed a merit certificate or were 'last with others'.

To those who have passed their Final examination, I would say that in our profession there are exceptional opportunities for men and women of high intelligence and who are willing to work. You undoubtedly still have a great deal to learn and as you advance in the profession, as I am sure you will, I hope you will not forget the debt you owe to your parents and to those who have helped you.

In particular I hope you will in future associate yourself closely with the Students Societies, District Societies, and with the Institute. The service which these bodies can render is largely due to the tremendous amount of voluntary work done by our members and as I know from my own experience there are few more satisfying and rewarding activities than service to one's chosen profession.

#### FIRST APPENDIX

### to Council Statement of November 7th, 1962

REVISED SYLLABUS FOR THE INTERMEDIATE EXAMINATION

(First examination September 1964)

#### SUBJECTS

(Three hours are allowed for each paper)	No. of questions
Book-keeping and Accounts two papers	4 to 6 (each paper)
AUDITING	6 to 10
GENERAL PAPER	
For detailed syllabus see below.	•

#### Notes:

(i) Questions will NOT be set on the following: executorship accounts, executorship law, estate duty, consolidated accounts, statements of affairs, liquidators' accounts or cost accounting.

(ii) Whilst there is no separate paper on taxation, candidates will be expected to have elementary knowledge of the law and principles of income tax and their

simple application.

Questions will NOT be set involving the computation of capital allowances, a knowledge of surtax, profits tax, excess profits levy, penalties, assessment of capital gains or foreign income, double taxation relief, residence or domicile.

(iii) The number of questions set in each paper will

vary between the limits indicated.

(iv) The syllabus is intended as a general guide to the questions which will be comprised in each paper. It must be understood that it does not necessarily exclude the setting of questions in kindred subjects not specifically referred to. Questions will NOT be set on new legislation until it is actually in operation.

(v) Where a question in any paper requires a knowledge of law, candidates are expected to know the principles which have been established by certain cases but they will not be penalized for not stating the name by which a particular case is known; neither will they necessarily be expected to quote cases as authority for their answers.

### **Detailed Syllabus**

GENERAL PAPER

- including the elements of English law.

Office routines; the purchase, sale, storage and carriage of goods (home, import and export); mercantile, commercial and insurance terms; the use of banking accounts and of cheques and bills of exchange; Stock Exchange terms and the practice in the purchase and sale of securities.

Elements of English law. The nature, origin and development of common law, equity and statute law; the system of case law; the functions of the various Courts of Justice; the judges and main officers concerned with the administration of the law; the elements of the law relating to property (real and personal), torts and contracts (including agency). Questions will NOT be set on constitutional law, criminal law, probate, divorce and admiralty law, emergency legislation, the practice of the Courts, specific statutes and decided cases.

### SECOND APPENDIX

to Council Statement of November 7th, 1962
REVISED SYLLABUS FOR PARTS I AND II OF
THE FINAL EXAMINATION

### SUBJECTS

(Three hours are allowed for each No. of paper)

No. of questions

#### Part I

(First examination May 1965)

Advanced Accounting I . . . . . 4 to 6
This paper will include one major and
one or two minor questions on executorship.

(See also note (i) below.)

Taxation I	4 to 8
ENGLISH LAW I	8 to 12
English Law II	12
Part II	

(First examination November 1965)	
ADVANCED ACCOUNTING II (See note (i) below.)	4 to 6
ADVANCED ACCOUNTING III (For detailed syllabus see below.)	5 to 9
AUDITING	6 to 10
Taxation II	5 to 9
GENERAL PAPER  - including the elements of economics.  (For detailed syllabus see helan)	6 to 10

### Notes:

(i) Questions involving sole traders and partnerships may be asked in either or both of the Advanced Accounting I and Advanced Accounting II papers. Questions relating exclusively to taxation or estate duty will NOT be included in either paper as these subjects will be covered elsewhere. Questions involving group or consolidated accounts will NOT be asked in the Advanced Accounting I paper.

(ii) The number of questions set in each paper will

vary between the limits indicated.

(iii) The syllabus is intended as a general guide to the questions which will be comprised in each paper. It must be understood that it does not necessarily exclude the setting of questions in kindred subjects not specifically referred to. Questions will NOT be set on new legislation until it is actually in operation.

(iv) Where a question in any paper requires a knowledge of law, candidates are expected to know the principles which have been established by certain cases but they will not be penalized for not stating

the name by which a particular case is known; neither will they necessarily be expected to quote cases as

authority for their answers.

#### **Detailed Syllabus**

The detailed syllabus for the Advanced Accounting III paper and the General Paper is published below solely in order to give candidates and their tutors some indication of the scope of these papers.

### ADVANCED ACCOUNTING III

The use of accounts by management including the preparation, presentation and interpretation of accounting data for that purpose.

The form, preparation and uses of information for control including forecasts and budgets for capital and revenue receipts and expenditure, profit and cash. Reporting on the financial aspects of proposals for capital expenditure and investigations relating thereto.

The recording and analysis of accounting and statistical data in relation to stocks of materials, work in progress, labour and other direct and indirect expenses. Job, product, process, standard, depart-

mental and marginal costing.

The presentation and use of costing data for control purposes; forms of operating statements and methods of portraying financial results; measures of effectiveness and analysis of changes. The interpretation and use of statistics, graphs and break-even charts for the portrayal of financial results and operating statements and for managerial control.

The analysis and interpretation of accounts including costing and financial statements and the draft-

ing and presentation of reports thereon.

Office methods and equipment including mechanized methods as applicable to the financial, costing and factory records.

It is intended to publish in due course an illustrative reading list for this paper.

#### GENERAL PAPER

- including the elements of economics.

Prices, Production and Income

Production - allocation of resources: diminishing and increasing returns; relation of production to consumption and capital formation; economic development.

The price mechanism - supply and demand; com-

petition and monopoly.

Division and allocation of the national income wages, profits, interest and rent; spending and saving.

### Money and Finance

Money and banking - the role and nature of money; the banking mechanism; inflation and deflation; the Bank of England and the joint-stock banks; money market and insurance institutions, their functions and

Finance - the provision of corporate finance: the capital market including the Stock Exchange; new issues; reconstructions and amalgamations; investments; the financial structure of companies; the sale and purchase of businesses.

Goodwill; valuation of assets; methods of valuation of stocks and shares; distinctions between different classes of companies and other undertakings.

Taxation - theory of taxation; fiscal policy; finances of the State and of local authorities.

### Industry and Trade

Industrial organization; industrial monopoly and restrictive trade practices; nationalized industries; commodity markets; employment and unemployment.

External trade, including its organization and finance; the balance of payments; international investment; foreign exchanges; regional trade and financial groupings; international economic organizations.

This paper may also include problems connected with any of the above matters on which chartered accountants may be consulted professionally.

It is intended to publish in due course an illustrative reading list relating to that part of the General Paper involving an elementary knowledge of economics.

November 17th, 1962

### ACCOUNTANT

### THIRD APPENDIX to Council Statement of November 7th, 1962

Eligibility for Old and New examinations

This appendix sets out, in tabular form, the eligibility of articled clerks for both the OLD and the NEW examinations as follows:

Schedule 1 (OLD examinations):

Clerks entering into articles between January 1st, 1962

and May 31st, 1963.

Schedule 2 (NEW examinations): Clerks

Clerks entering into articles between January 1st, 1962

Schedule 3 (NEW examinations): and May 31st, 1963. Clerks entering into

Clerks entering into articles after May 1963 who will be

required to sit for the NEW examinations.

### Schedule 1

(OLD examinations)

A clerk entering into articles before June 1963 (as set out in paragraph 32 of the Council's statement of August 1st, 1962) may elect

either (i) to sit for the OLD Intermediate examination under the existing rules of eligibility until the last examination in May 1965 and either for the OLD Final examination (available up to November 1966) or for the NEW Final examination;

or (ii) to sit for the NEW Intermediate examination under the revised rules of eligibility from the first examination in September 1964 and thereafter for the NEW FINAL examination (see note (5) below).

A clerk serving four year articles which commence after March 1st, 1963, and a clerk serving five year articles commencing after March 1st, 1962, will be required to sit for the NEW FINAL examination.

Where the clerk elects under (ii) above the dates of the NEW examinations are given in Schedule 2 on page 656. Where the clerk elects under (i) above the following table shows the earliest dates of the OLD examinations for which he may apply to sit.

Date of	O	LD Intermedia	ate		OLD Final	
commencement of articles	3 years	4 years (see note 1 below)	5 years	3 years	4 years	5 years (see notes 2 and 3 below)
Jan. 1st, 1962 to Feb. 28th, 1962 (see note 2 below)	May 1963	Nov. 1963	May 1964	Nov. 1964/ May 1965 (see note 2 below)	Nov. 1965	*Nov. 1966
Mar. 1st, 1962 to May 31st, 1962 (see notes 2 and 3 below)	May 1963	Nov. 1963	May 1964	May 1965	May 1966 (see note 2 below)	
June 1st, 1962 to July 31st, 1962	Nov. 1963	May 1964	Nov. 1964	May 1965	May 1966	
Aug. 1962 (see note 2 below)	Nov. 1963	May 1964	Nov. 1964	May 1965/ Nov. 1965 (see note 2 below)	May 1966	MUST sit NEW examination
Sept. 1st, 1962 to Nov. 30th, 1962	Nov. 1963	May 1964	Nov. 1964	Nov. 1965	*Nov. 1966	(OLD EXAMINA-
Dec. 1st, 1962 to Jan. 31st, 1963	May 1964	Nov. 1964	*May 1965	Nov. 1965	*Nov. 1966	TION NOT AVAILABLE)
February 1963 (see note 2 below)	May 1964	Nov. 1964	*May 1965	Nov. 1965	*Nov. 1966	
Mar. 1963 to (see notes 2 and 4 below) May 31st, 1963	May 1964	Nov. 1964	*May 1965	Nov. 1965/ May 1966 (see note 2 below)	OLD examination NOT available (see note 4 below)	

<sup>\*</sup>Last OLD examination available.

#### Notes

(1) A clerk serving four year articles may first apply to sit for the OLD Intermediate examination after the completion of eighteen months' service under articles; for the purpose of the OLD Intermediate examination the service of any clerk is deemed to have commenced on the first day of the calendar month in which in fact it commenced.

(2) A clerk may first apply to sit for the OLD Final examination (last available November 1966), provided that:
(a) he has completed his term of service under articles or the examination is held within the last three months of his service under articles;

and (b) two years have elapsed since the time of passing the OLD Intermediate examination (one year in the case

of a clerk serving three year articles.)

By way of example, to be within the last three months rule referred to in (a) above, a clerk entering into articles in 1962 or up to March 1st, 1963, must have commenced his service under articles not later than the following dates.

Of D. Bird manifestant falling within the commenced his service under articles not later than the following dates.

articles 3 years 4 years 5 years	commencing articles February 24th, 1962 March 1st, 1962 March 1st, 1962	three months  November 1964 (four further examinations available) November 1965 (two further examinations available) November 1966 (last available examination) Persons entering articles after March 1st, 1962 MUST sit the NEW examination
3 years 4 years	August 25th, 1962 August 31st, 1962	May 1965 (three further examinations available) May 1966 (one further examination available)
3 years 4 years	March 1st, 1963 March 1st, 1963	November 1965 (two further examinations available) November 1966 (last available examination)

(3) A clerk serving five year articles whose service commenced after March 1st, 1962, must sit for the NEW Final examination but a clerk serving five year articles whose service commenced not later than March 1st, 1962, may apply under the last three months rule to sit for the OLD Final examination in \*November 1966, subject to having passed the OLD Intermediate not later than November 1964.

(4) A clerk serving four year articles whose service commences after March 1st, 1963, must sit for the NEW Final examination but a clerk serving four year articles whose service commences not later than March 1st, 1963, may apply under the last three months rule to sit for the OLD Final examination in \*November 1966, subject to having passed the OLD Intermediate examination not later than November 1964.

(5) As stated in paragraph 32 (j) of the Council's statement of August 1st, 1962, a clerk who sits for the NEW

Intermediate examination shall be required to sit for the NEW Final examination.

### Schedule 2 (NEW examinations)

A clerk entering into articles before June 1963 (as set out in paragraph 32 of the Council's statement of August 1st, 1962) may elect

either (i) to sit for the OLD Intermediate examination under the existing rules of eligibility until the last examination in May 1965 and EITHER for the OLD Final examination (available up to November 1966) OR for the NEW Final examination;

(ii) to sit for the NEW Intermediate examination under the revised rules of eligibility from the date of the first examination in September 1964 and thereafter the NEW FINAL examination (see note 1 below).

Where a clerk elects under (i) above the dates of the OLD examinations are given in Schedule I on page 655. Where a clerk elects under (ii) above the following table shows the earliest dates of the NEW examinations for which he may apply to sit.

Date of	NEW	Interme	diate	NEV	V Final P	art I	NEW Final Part II			
of articles	3 years	4 years	5 years	3 years (see note 2 below)	4 years	5 years	3 years	4 years	5 years	
Jan. 1st, 1962 to	†Sept.	†Sept.	†Sept.	†May	†May	†May	†Nov.	†Nov.	Nov.	
April 30th, 1962	1964	1964	1964	1965	1965	1965	1965	1965	1966	
May 1st, 1962 to	†Sept.	†Sept.	†Sept.	†May	†May	†May	†Nov.	May	May	
Oct. 31st, 1962	1964	1964	1964	1965	1965	1965	1965	1966	1967	
Nov. 1st, 1962 to	†Sept.	†Sept.	†Sept.	†May	†May	†May	†Nov.	Nov.	Nov.	
April 30th, 1963	1964	1964	1964	1965	1965	1965	1965	1966	1967	
May 1st, 1963 to	†Sept.	Mar.	Mar.	†May	Nov.	Nov.	May	May	May	
May 31st, 1963	1964	1965		1965	1965	1965	1966	1967	1968	

<sup>†</sup>First available examination.

#### Notes:

(1) As stated in paragraph 32 (j) of the Council's statement of August 1st, 1962, a clerk who sits for the NEW Intermediate examination shall be required to sit for the NEW Final examination.

(2) An articled clerk who has been exempted from the Intermediate examination may not first sit for Part I of the Final examination until he has completed eleven months' service under articles; for this purpose the service of any clerk is deemed to have commenced on the first day of the calendar month in which, in fact, it commenced.

<sup>\*</sup>Last OLD examination available.

### Schedule 3

### (NEW examinations)

A clerk entering into articles after May 1963 is required to sit for the NEW Intermediate and Final examinations (see paragraph 32 of the Council's statement of August 1st, 1962).

The following table shows the earliest dates of examinations for which he may apply to sit.

Date of	In	termedia	ate	Fi	nal Part	Ţ	Final Part II			
commencement of articles	3 years	4 years	5 years	3 years (see note below)	4 years	5 years	3 years	4 years	5 years	
June 1st, 1963 to	Sept.	Mar.	Mar.	†May	Nov.	Nov.	May	May	May	
Oct. 31st, 1963	1964	1965	1965	1965	1965	1965	1966	1967	1968	
Nov. 1st, 1963	Mar.	Sept.	Sept.	Nov.	May	May	Nov.	Nov.	Nov.	
to April 30th, 1964	1965	1965	1965	1965	1966	1966	1966	1967	1968	
May 1st, 1964 to	Sept.	Mar.	Mar.	May	Nov.	Nov.	May	May	May	
Oct. 31st, 1964	1965	1966	1966	1966	1966	1966	1967	1968	1969	

### Note:

An articled clerk who has been exempted from the Intermediate examination may not first sit for Part I of the Final examination until he has completed eleven months' service under articles; for this purpose the service of any clerk is deemed to have commenced on the first day of the calendar month in which, in fact, it commenced. First eligibility for Parts I and II of the Final examination is, therefore, as follows:

Date of commencement of articles	First eligible for Final Part I	First eligible for Final Part II
June 1st, 1963 to October 31st, 1963	†May 1965	May 1966
November 1st, 1963 to December 31st, 1963	†May 1965	November 1966
January 1st, 1964 to April 30th, 1964	†May 1965	November 1966
May 1st, 1964 to June 30th, 1964	†May 1965	May 1967
July 1st, 1964 to October 31st, 1964	November 1965	May 1967

<sup>†</sup>First available examination.

### MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Butterworths Income Tax Handbook being the amended texts of the Income Tax Acts... 1962-63. (Butterworths). 1962. (Butterworths, 32s.)

Cost Accounting principles and practice: . . . managerial control for . . . business operations; by J. W. Neuner: 6th edition. Homewood, Ill. 1962. (Richard D. Irwin, 64s.)

Dynamic Business Management; by H. Norcross. 1962. (Business Publications, 35s.)

Essays in the Theory of Economic Growth; by Joan Robinson. 1962. (Macmillan, 18s.)

Inventories: a guide to their control, costing and effect upon income and taxes; by R. A. Hoffman. New York. 1962. (Ronald Press, presented by the author.)

Taxation Guide 1962-63 . . .; by J. D. Jenkins. Bradford. 1962. (Typescript, 22s 6d.)

A Guide to Operational Research; by W. E. Duckworth. 1962. (Methuen, 20s.)

# NORTHERN CHARTERED ACCOUNTANTS' DINNER

# MORE ACCOUNTANTS IN THE FIELD OF PUBLIC ENTERPRISE

Over three hundred members and guests attended the annual dinner of the Northern Society of Chartered Accountants held at Newcastle upon Tyne on November 9th, with Mr J. C. Benson, F.C.A., President of the Society, in the chair.

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Dr William Reid, C.B.E., Ph.D., B.SC., chairman of the Durham Division of the National Coal Board, placed the diners in three categories – those they liked, those they had to like and those they may have to like – but said that by the end of dinner they would all be alike.

### Valuable Asset

The field of public enterprise, said Dr Reid, was coming increasingly under the rule of the accountant and in the mining industry there was a gradual rise in the number of professional accountants employed.

The major difference as compared with before was the appointment of professionally qualified finance advisors at every level of control. Sceptics might say that that was the reason for the industry losing money, but there were other reasons for that, and the services of a skilled professional accountant were indeed a valuable asset in any organization. He was very glad as chairman of a divisional board to have an experienced accountant at his side.

The Durham Division had a working capital of £104 million, an annual capital expenditure of £67 million and an annual revenue of £120 million, and that meant a very big task for a financial director in capital control, in budgeting forward, in the interpretation of costs and in sharing the responsibility of complying with national policies and directives.

It was not every accountant who could do this. His approach had to be a much broader one than that of a public accountant, and there must be some appreciation of the difference between the ideal and the practical. He had to have a spirit of adventure — at the same time to make judgements born of experience.

The Institute, continued Dr Reid, was a great organization, well respected in commerce not only in this country but throughout the world. Their professional standards were very high and made a very great contribution to the British reputation for a square deal throughout the world.

### Over Thirty-six thousand Institute Members

Replying to the toast, Mr P. F. Carpenter, F.C.A., President of the Institute, said that there were now just over thirty-six thousand members of the Institute. The Council was exceedingly busy and apart from routine matters, they had a number of special projects in hand,

such as the Parker Report on educational training. In this, as Dr Reid had said, they had to draw a distinction between the ideal and the practical. There was also the syllabus of new examinations and other decisions regarding the implementation of the Parker Report which had now been announced.

With the coming of seven new universities, said Mr Carpenter, it might well be that the recommendations of the Parker Report would have to be looked at again in five or ten years' time, when a larger supply of graduates would undoubtedly be available to the profession, as well as to the country as a whole.

The President went on to say that the Council was also dealing with the small practitioner inquiry and another matter receiving attention was the extension of the Institute's research activities.

### **Higher Subscriptions?**

In conclusion, Mr Carpenter said that he wished to mention that the members of the Finance Committee of the Institute were 'a little bit worried' about ways and means. There was a big programme ahead and it was most likely that there would be a suggestion that the very moderate subscriptions might well have to be slightly increased.

Perhaps, he added, the situation wasn't quite similar to the one in which Churchill said, 'A detailed method of spending the money has not yet been thought out, but we are assured on the highest authority that if only resource and energy is used there will be no difficulty in getting rid of the stuff'!

Proposing the toast of "The Guests', Mr K. J. Sharp, T.D., M.A., J.P., F.C.A., secretary of the Cumberland Branch of the Northern Society, said that the inclusion of his name in the toast list and the list of guests had nothing to do with the system of double entry. It was a matter of custom that the secretary of the Cumberland Branch should have as the sole 'perk' of his term of office the privilege of attending the dinner free of charge and then, as a junior official of a vassal State, must welcome the other guests.

These fell into three categories – those who had been useful, those who were being made use of and those whom they wished to make use of in the future. Broadly speaking the first two categories consisted of official guests and clients. He had been told by a business man, whom he was thankful was not a client, that he had never seen an accountant pay anything out of his expense account, and that was possibly the reason why they had a dinner.

Mr Sharp said that they were glad to welcome Mr Evan-Jones, one of the new joint secretaries of the Institute, but, he added, amid laughter, it must not be assumed that the double volume of paper now likely

### THE ACCOUNTANT

Replying for the guests, Mr M. N. Craigs, M.A., a Newcastle solicitor, said that he claimed to be the only

to be sent out was going to be read by all who guest at the top table who represented nobody and nothing but had had a free dinner in consideration for making a speech. He was happy to say that the guests had been most admirably wined and dined.

### STRENGTHENING THE PROFESSION

### NORTH YORKS AND SOUTH DURHAM CHARTERED ACCOUNTANTS' DINNER

The annual dinner of the North Yorkshire and South Durham Branch of the Northern Society of Chartered Accountants was held at the King's Head Hotel, Darlington, on November 2nd. The Chairman of the Branch, Mr C. D. Humphreys, F.C.A., A.C.W.A., F.T.I.I., presided.

The toast of 'The Institute of Chartered Accountants in England and Wales', was proposed by Mr E. G. Fairburn, a director of Tyne-Tees Television. Mr Fairburn said that accountancy was one of the professions that had a great part to play in the future. As professions went, accountancy was young, but as society moved forward and became more complicated the need for specialization grew. One of the most important things the profession had to consider today, said Mr Fairburn, was to control its speed of growth. The profession had not yet reached the limits of its capacity, but the time had come when consideration should be given to strengthening its position. Many people who called themselves accountants had no qualification, except perhaps 'a general experience'. He expressed the view that he would like to see one single body of accountants in the United Kingdom with powers of training, powers of control and with a central registry so that no one could practise as an accountant without his name being on the register.

### Training for the Profession

With regard to the training of accountants, he said hat it was not a good thing for the profession for 70ung men to come into it without being given a sense of responsibility and appreciation of its value, which should be foremost in their minds. 'It was not enough hat young men should be brought in from school with a high degree of training and then 'put at a desk and given a bottle of red ink and a clerks' wages'. If the profession was to be strengthened something ought to be done to tighten up the initial training, he declared.

Mr Fairburn then referred to the Common Market, and said that in the great vista that was opening there was going to be a great need of accountancy. The time was coming, he hoped, when there would be the opportunity for accountants to spread their influence into Western Europe. The chartered surveyors were sending specially selected representatives to Europe so that they would be prepared. Those industries which had gone to the trouble of sending representatives abroad to find out the position would be better placed to take their opportunities in the general reorientation of Western Europe.

They must take advantage of all the opportunities which would present themselves in the very near future, and that future was going to be very important for this country, to Western Europe generally and possibly the world. The building up of a group of nations with a population of well over two hundred million was something to think about,' he concluded.

#### Planning for the Future

Responding to the toast, Mr R. P. Winter, C.B.E., M.C., T.D., D.L., F.C.A., Vice-President of the Institute, also stressed the importance of planning for the future. The profession, he said, must look forward and not back. They must face the Common Market and all that it meant.

During this month National Productivity Year would be inaugurated, and this was an opportune moment for accountants to take stock and see how they could help their clients in industry to meet all the demands. They must keep themselves up to date in new technologies to give better service.

'There was a tendency before the war', Mr Winter continued, 'to feel that a young man who qualified and entered industry had left the profession, but we now realize that a young man in industry is just as important as the practising member.'

He said that he would welcome some scheme where an articled clerk could spend some time working on theory, and the method of combining the two aspects - practice and theory - was another problem the Council was examining.

Mr D. B. Ward, M.B.E., F.C.A., proposed the toast of "The Guests', and Mr G. W. Nattrass, President, The Insurance Institute of Middlesbrough, responded.

### COMPAN

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# Electronics in the Office

### Computer for Manchester Corporation

THE Corporation of Manchester has ordered a LEO III computer and is believed to be the first city in the United Kingdom to order a large-scale transistorized magnetic tape computer for local government use.

Due to be installed in the city centre in the late spring of 1964, the computer will take over and extend the work of the Corporation's existing computer installation. It will run the payroll for some twenty-one thousand five hundred weekly and nine thousand five hundred monthly paid employees and handle other work including pensions, payment of accounts, expenditure analyses, general rates and water charges, and quarterly rents. LEO will also provide costings for labour, transport and materials, and prepare statistics such as records of health visits, traffic census, births, etc.

LEO III is completely transistorized and able to carry out calculations in decimal, sterling or weights and measures without any need for conversion. It uses magnetic tape and also has punched-card and paper tape equipment. Results can be printed on a high speed line printer at a rate of up to one thousand lines a minute.

### Off-line Printing Configuration

DEVELOPMENT of a new, low-cost, off-line printing configuration, for use with the Honeywell 800 in computer applications having heavy print-out requirements, was announced recently by the Honeywell E.D.P. Division. The new equipment consists of an off-line printer control unit used with a high-speed printer and either a standard or economy magnetic tape transport.

The off-line printing configuration, including the

high-speed printer, an economy tape unit and the printer control unit, can be hired for £1,401 per month. The sales price is £70,305. Delivery time is twelve months from date of order.

The Honeywell high-speed printer operates at a rate of 900 lines a minute. A total of 160 print positions per line are available. Of these, 120 positions may be 'active' in any given print run. The standard density magnetic tape unit has a data of 96,000 decimal digits per second. The economy tape unit reads or writes at 48,000 decimal digits per second.

### Report on Office Automation

AN interesting progress report in booklet form entitled Office Automation (H.M.S.O., price 5s) has been prepared by Dr W. H. Scott, of the Department of Social Science, University of Liverpool, for the European Productivity Agency of the Organization for Economic Co-operation and Development. It deals with some of the sociological and psychological studies of the way in which the introduction of electronic computers affects office workers.

Research was carried out in five O.E.C.D. member countries (France; Germany, the Netherlands, Sweden and the United Kingdom) in a variety of firms including banks, insurance and offices of manufacturing companies. The studies cover the 'pre-change' situation, with a description of the work, staff attitudes and working conditions before the installation of computers. The situation as it develops during the change-over is considered, from the taking of the decision to the actual installation, with all the attendant difficulties. The report concludes with some enlightening observations as to the future, forecasting staff cuts, transfers, and changed relations between management and office staff.

The report makes no claim to be a detailed, theoretical one, rather it aims to illustrate the changes of all kinds inherent in the installation of electronic equipment in offices. Its main appeal will be to those employers, executives and operatives who have a say in the installation of computers.



### E.D.P. System for Yorkshire Electricity Board

A view of the KDP10 electronic data processing system opened last week at the new data centre of the Yorkshire Electricity Board at Seacroft, Leeds. The present intention of the Board is to centralize the consumer accounting work of its sub-areas replacing existing punched-card installations by electronic systems.

The installation will be employed on the processing of data relating to about twenty-five thousand consumer accounts and printing out the bills ready for dispatch. It will also produce up-to-the minute information on a wide variety of matters available from the detail contained in the consumer records.

## Notes and Notices

### PROFESSIONAL NOTICES

MESSRS COOPER BROTHERS & Co and COOPERS & LYBRAND announce that they have opened an office at P.O. Box 73, Central African Road Services Buildings, Great East Road, Fort Jameson, Northern Rhodesia.

Messrs Buckley, Hall, Devin & Co, Chartered Accountants, announce that as from November 1st, Mr S. H. Hall, M.A., A.C.A., has been admitted as a partner in their London and Hull practices, and Mr Dennis Finfer, c.a., in their London practice, from which Mr George E. Cartwright has retired.

MR WALTER HOLMES OURY, F.C.A., announces that his elder son, Mr BRIAN ROBERT OURY, A.C.A., has recently joined him in partnership, and in future the practice will be carried on at 62 High Street, Slough, and 38 High Street, Maidenhead, under the style WALTER H. OURY & CO.

Messrs Geo. Little, Sebire & Co, Chartered Accountants, of Adelaide House, London Bridge, London EC4, announce that they have admitted into partnership, as from October 1st, 1962, Mr Alastair R. McCrae, c.a., a senior member of their St Albans office staff and that Mr Vivian Fox Brown, f.c.a., retired from the partnership on that date, having taken up a commercial appointment.

Messrs Spicer & Pegler, Chartered Accountants, announce that consequent upon the redevelopment of the 19 Fenchurch Street area, where their offices are situated, they are moving on November 17th, to St Mary Axe House, 56-60 St Mary Axe, London EC3. Telephone: Avenue 3070.

### **Appointments**

Sir Gerard d'Erlanger, C.B.E., F.C.A., deputy chairman of the Provident Mutual Life Assurance Association, is to become chairman on January 1st next.

/ Mr G. Kirkman, A.C.A., has been appointed secretary/accountant of English Tools Ltd, and A. & F. Parkes & Co Ltd.

Mr K. S. Smith, c.A., accountant, of Mocatta & Goldsmid Ltd, has been appointed a director of the company.

### ASSISTANT OFFICIAL RECEIVER APPOINTMENT

The Board of Trade have announced that as from November 5th, 1962, Mr Walter Scaife has been appointed an Assistant Official Receiver for the Bankruptcy District of the County Courts of Birmingham, Coventry, Dudley, Hereford, Kidderminster, Leominster, Stourbridge, Walsall, Warwick, West Bromwich, Wolverhampton and Worcester.

### DOUBLE TAXATION: REPUBLIC OF SOUTH AFRICA

The double taxation convention with the United Kingdom and the Republic of South Africa relating to taxes on income was ratified on September 27th, 1962, and has now been published as the Schedule to an Order in Council numbered S.I. 1962, No. 2352.

### MEMORIAL SERVICE Sir Harold Barton, F.C.A.

A memorial service for Sir Harold Barton, F.C.A., whose death was announced in our issue of October 27th, will be held at the church of St Botolph Without, Bishopsgate, London, on Tuesday, December 4th, at 12 noon.

### MAURITIUS SUGAR INDUSTRY INQUIRY

Mr C. J. M. Bennett, F.C.A., a partner in the firm of Barton, Mayhew & Co, Chartered Accountants, has been appointed, with Dr Thomas Balogh, a Fellow of Balliol College, Oxford, as Chairman, to inquire into the Mauritius Sugar Industry. The terms of reference of the two-member Commission include the examination of the present basis of the apportionment of sugar accruing to planters and millers; the present system of credit facilities available to planters; and the cost of production, in field and factory, having regard to the need for ensuring that a fair share of the proceeds of the industry, in the form of wages and salaries, accrues to all the workers engaged in the industry.

### BUILDING AND CIVIL ENGINEERING INQUIRY

Mr P. A. Barnes-Graham, C.A., has been appointed a member of a working party set up by the Minister of Public Building and Works to 'examine the significant differences between the organization and practices for building and civil engineering in Scotland and those in England and Wales, and to make recommendations with a view to promoting greater efficiency'. Mr Barnes-Graham is secretary of Brownlee & Co Ltd, of Glasgow.

### **POST-WAR CREDITS**

Under the Post-War Credit (Income Tax) Amendment Regulations 1962, post-war credits are now payable to men over 60 and women over 55. Claim forms may be obtained at any post office; when completed, they should be sent to the appropriate tax office. The new regulations implement the Chancellor's recent announcement on post-war credits referred to in our issue of October 13th at page 487.

### IN PARLIAMENT Schedule A

Brigadier CLARKE asked the Chancellor of the Exchequer if he will give consideration to the abolition of Schedule A Tax as already promised by Her Majesty's Government.

Mr MAUDLING: I am glad to repeat the undertaking given by my right hon. and learned friend the Member for Wirral (Mr Selwyn Lloyd) that provision for ending the charge to tax under Schedule A on owner-occupiers of residential property will be included in next year's Finance Bill. As my hon. friend said, it will depend on revenue considerations whether this can be done in a single operation in one year.

Hansard, Nov. 6th, 1962. Written Answers. Col. 41.

### Rates: Revised Assessment

Mr LIPTON asked the Minister of Housing and Local Government and Minister for Welsh Affairs when ratepayers will be told what their revised assessments will be in 1963.

Sir K. Joseph: Rating authorities will get the new lists on December 21st, and will arrange for them to be open to inspection. Ratepayers will not, of course, know what they have to pay until rating authorities make their rates two or three months later.

Hansard, Nov. 6th, 1962. Oral Answers. Col. 776.

### Investment Allowance: Hotel and Catering Industries

Sir N. Cooper-Key asked the Chancellor of the Exchequer whether the recent concessions regarding investment and initial allowances apply to the hotel and catering industries.

Mr Barber: The proposed increase in the investment allowances for capital expenditure on new plant and machinery incurred after November 5th will apply to such expenditure incurred for the purposes of any trade, including the hotel and catering industries. The proposed increase in the investment allowance for new industrial buildings will not affect these industries. My right hon. friend has not proposed any change in the initial allowances.

Hansard, Nov. 6th, 1962. Written Answers. Col. 41.

### **Building Societies: Income Tax**

Sir C. OSBORNE asked the Chancellor of the Exchequer what would be the approximate annual cost of freeing all building societies of income tax payments; and what proportion of their receipts from interest on loans for house purchase is absorbed by income tax.

THE FINANCIAL SECRETARY TO THE TREASURY (Mr ANTHONY BARBER): It is estimated that to exempt building societies from income tax apart from the tax they pay in respect of share and deposit interest going to investors would cost £11 million, or about 6 per cent of their receipts from interest on loans.

Hansard, Nov. 6th, 1962. Oral Answers. Col. 792.

### Income Tax: Recovery

Captain Kerby asked the Chancellor of the Exchequer how many legal actions were instituted in 1961 for the recovery of income tax; how many of such actions were successful; how many failed; what was the cost of such actions; how much cash they recovered; and in how many cases successful defendants were repaid their costs.

MR BARBER: 2,530 writs were issued in 1961 for the recovery of income tax. In nearly half these cases the tax was paid before judgment. None of the actions failed, but a very few of them may have been discontinued to remedy some technical flaw as a preliminary to starting the action afresh: in such cases the Inland Revenue is liable to pay any necessary or proper costs incurred in the discontinued action.

In addition local proceedings for the recovery of income tax were taken in about forty-six thousand

I regret that the other information requested is not available.

Hansard, Nov. 9th, 1962. Written Answers. Col. 116.

### SCOTTISH INSTITUTE'S NEW DIRECTORY

The Official Directory, 1962-63, of The Institute of Chartered Accountants of Scotland, now published, shows that membership at July 31st, 1962, numbered 7,077 compared with 6,928 in the previous year. An analysis of this total reveals that there were 3,671 members in Scotland at July 31st, of whom 1,086 were 'in practice on their own account or as partners in firms'. Members in the United Kingdom other than Scotland numbered 2,236 (257 in practice as principals or partners), and there were 1,170 members abroad (197 in practice as principals or partners).

The Directory, which extends to 605 pages, contains the usual alphabetical and topographical lists of members, together with details of the membership of the Council of the Institute and the Standing and

Local Committees for 1962-63.

### **Computer Course**

Thirty-six members of The Institute of Chartered Accountants of Scotland attended an advanced computer course organized by the Institute at the Turnberry Hotel, Ayrshire, from last Saturday to Thursday of this week. The course was arranged for the benefit of the younger accountant in industry whose firm has installed or is likely to install a computer. The members who participated had all previously attended one of the three introductory computer courses run by the Institute.

A session on 'E.D.P. equipment and applications' included a review of principles and equipment, principles of programming and card systems; and a further session on 'Impact of E.D.P. on the organization' dealt with pre-installation planning, controlling the computer and future systems development. The speakers at both these sessions were from International Computers and Tabulators Ltd, and IBM United Kingdom Ltd. Other addresses were given as follows:

'Impact of E.D.P. on the organization—user experience', by Mr John M. Amour, C.A., of Lloyds & Scottish-Finance Ltd, and Mr Ronald Peddie, B.A., C.A., of The United Steel Companies Ltd.

'Impact of E.D.P. on the accountant – accounting & auditing problems', by Mr D. W. Hooper, M.A., F.C.A., of The National Coal Board, and Mr F. Clive de Paula, T.D., F.C.A.

'Data transmission', by Mr G. Dale, Inland Telecommunication Department, G.P.O.

'Demand of the computer on the accountant of the future', by Mr T. W. McRae, C.A., P. D. Leake' Research Fellow 1961-62.

There was also a general question time session conducted by Professor Robert Browning, C.B.E., M.A., LL.B., C.A., Professor of Accounting at the University of Glasgow, and convener of the computer course committee.

### THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

#### President's Luncheon

The President of The Institute of Cost and Works Accountants, Mr W. Bishop, C.A., F.C.W.A., gave a luncheon party yesterday (Friday), at 63 Portland Place, London. Those present were:

Mr A. Abel-Smith, T.D., J.P. (managing director, J. Heyry Schroder & Co Ltd); Mr A. L. G. Lindley, C.G.I.A.,

M.I.MECH.E. (chairman and managing director, The General Electric Co Ltd); Mr J. P. Martin-Bates, M.A.(OXON.), F.B.I.M., F.C.I.S., J.P. (Principal, Administrative Staff College, Henley-on-Thames); Mr J. A. R. Pimlott, C.B. (Under Secretary, Branch of Further Education, Ministry of Education); Mr J. W. Platt, M.A. (chairman of the United Kingdom Advisory Council on Education for Management); Mr Edward Powell (managing director, The Chloride Electrical Storage Co Ltd); Mr J. Borsay, F.C.W.A.; Mr W. Coutts Donald, C.A., F.C.W.A.; Mr C. E. Power, F.C.A., F.C.W.A.; Mr W. L. Spalding, B.S.(ECON.), C.A., F.C.W.A., F.C.W.A., F.C.W.A.; Mr Derek du Pré (Secretary of the Institute).

### COURSES FOR MANAGEMENT

I'wo two-day courses on 'Budgetary control and standard costs' and 'Profit control' are to be held at I'he Midland Hotel, Manchester, from November 20th-21st and November 22nd-23rd respectively.

The first course, which will be presented by Dr fames M. S. Risk, B.COM., PH.D., C.A., F.C.I.S., F.B.I.M., will include subjects dealing with sales and output, standards and budgets, standard product costs and actual results and comparisons. The second course, it which the speakers will be Mr E. Brian Bishop, C.C.W.A., F.C.I.S., and Dr Risk, will include an examnation of marginal costing, break-even analysis and profit engineering.

Further information regarding the courses is available rom Management Courses Ltd, 8 St George's Terrace,

London NW1.

#### ANOTHER RISE IN MUNICIPAL DEBT

The eleventh Return of Outstanding Debt at March 31st, 1962, compiled by The Institute of Municipal Treasurers and Accountants, shows that the total debt for which all county boroughs, counties, London County Council, metropolitan boroughs and the City of London authorities were responsible

The Institute of Municipal Treasurers and Accountants, Buckingham Place, London SW1. Price 12s 6d post free.

### To be published shortly

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amounted to £3,238 million compared with £2,986 million the year previously. More than half the new total was accounted for by housing in which the outstanding debt last March stood at £1,826 million against £1,713 million a year earlier. Education accounted for £774 million compared with £701 million; trading services for £168 million compared with £159 million and other services £470 million against £413 million.

The publication also contains sample statistics of 215 non-county boroughs, 206 urban district councils and 129 rural district councils. Particulars of the methods by which loans were raised are shown in the summary.

#### CENSUS OF PRODUCTION FOR 1062

As already announced (*The Accountant*, September 8th issue) the Census of Production to be taken in 1963 for the year 1962 will be a sample inquiry and will relate only to sales and work done, capital expenditure, and stocks and work in progress. An order prescribing the matters about which returns may be required has now been made by the Board of Trade. Undertakings producing coal, gas, electricity, oil-shale, crude or refined petroleum or shale oil products are exempted from making Census of Production returns. (Information corresponding to that collected in the Census will be obtained from these undertakings by the Ministry of Power.)

### THE LEEDS, BRADFORD AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

### **Annual Golf Meeting**

The annual golf meeting of The Leeds, Bradford and District Society of Chartered Accountants was held at Ganton Golf Club on October 12th, and was attended by forty-nine members of the Society.

The results turned out to be a family affair. The Blackburn Cup, played off handicap, was won by Mr A. M. G. Smith with 39 points, and his son, Mr G. H. Smith retained the Halliday Cup for the best gross score with a return of 76. The leading scores were as follows:

Blackburn Cup			Points
A. M. G. Smith (6)	 		 39
G. H. Smith (2)	 		 37
S. Jones (5)	 		 37
M. G. Crawford (15)	 		 37
H. Marriner (20)	 	••	 35
Halliday Cup			Gross
G. H. Smith	 		 76
A. M. G. Smith	 		 77
S. Jones	 		 78 84
W. S. Harker	 • •		 84

<sup>1</sup> Census of Production (1963) (Returns and Exempted Persons) Order 1962 (S.I. 1962 No. 2361). H.M.S.O. Price 3d, by post 5½d.

MOTOR — FIRE — CONSEQUENTIAL LOSS

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### THE INSTITUTE OF ACTUARIES' YEAR-BOOK

The 1962-63 Year-Book of The Institute of Actuaries, now published, shows that membership of the Institute on July 31st, 1962, numbered 2,459 — an increase of 112 on the previous year's figure. An analysis of the membership shows that 1,071 were Fellows, 379 Associates and 991 Students. Of the 1,071 Fellows, 463 were with British assurance offices, sixty in consulting practice, forty-nine in industry and commerce, and thirty in Government service; of the remaining 469, there were 294 employed overseas — the majority with dominion and foreign assurance companies and in Government service.

### THE ACCOUNTANT'S DIARIES

The Accountant's Diaries for 1963, now on sale, contain completely revised information in the foolscap desk diary and the pocket diary.

The foolscap diary, which has three days to a page, includes information on professional fees, company liquidation and bankruptcy time-tables, income tax and surtax rates, schedule of depreciation allowances, inland revenue duties and many other sections of use to the profession. The pocket diary contains similar

information, together with London, Edinburgh, Belfast and other provincial town maps.

The foolscap diary and the octavo desk diary (which has two days to a page, but is without information pages), appear in new covers of attractive maroon lettered in white and the pocket diary is in a new and improved red binding case lettered in gold.

The prices of the diaries, and of pocket refills and cases including postage and purchase tax are as follows:

•		
	205	6 <i>d</i>
No. 6 Desk Diary (octavo)	145	3d
	195	6 <i>d</i>
De Luxe Pocket Refills. Three days on a page	-	
with all information	16 <i>s</i>	6d
De Luxe Cases for Refills. Good quality leather,		

lettered in gold on front, lined with silk 18s od The diaries are obtainable from the publishers,

The diaries are obtainable from the publishers, Gee & Co (Publishers) Limited, 151 Strand, London WC2.

### WOMEN CHARTERED ACCOUNTANTS' DINING SOCIETY

The annual dinner of the Women Chartered Accountants' Dining Society will be held at the Palmerston Restaurant, Bishopsgate, London EC2, on Friday, December 7th, at 7 for 7.30 p.m.

### SEVENTY-FIVE YEARS AGO

From The Accountant of November 1971, 1887

Manchester Accountants' Students' Society

Extract from an address given by Mr E. M.
BEARDSALL, President of the Society.

... It will be known to most, if not all of you, that the Institute of Chartered Accountants in England and Wales held a meeting in Manchester in October last, at which papers on several important subjects were read, and interesting discussions followed. A similar meeting was held in June last in London, and the proceedings of both these meetings have been published, and will well repay a careful perusal.

Amongst the subjects brought before the Manchester meeting was the position of "Chartered Accountants as Auditors of Companies," on which a paper by Mr. ERNEST COOPER, F.C.A., was read, on October 15th. In the course of this paper he summarizes the main qualifications of an auditor as follows:

- 1.-Independence.
- 2.—Knowledge of bookkeeping and accounts.

- 3.—Knowledge of the law affecting companies.
- 4.—General knowledge of business.
- 5.—Acquaintance with the internal working of a variety of concerns.

And he points out how unusual it is to find all these qualifications, except amongst the ranks of professional accountants. This fact is becoming more generally recognized, and the appointment of professional accountants as auditors, although by no means universal or even general, is on the increase; and it is not without interest to note that the Admiralty have recently appointed the president of the Institute (Mr. FREDERICK WHINNEY) to investigate and report upon the accounts of their departments, giving him at the same time power to call in the assistance of another professional accountant, (not a member of his own firm). This appointment must be gratifying to accountants as a body; and doubtless much public benefit will result from the employment of a competent, (and non-official) accountant, to unravel and arrange the present complicated and mystifying system of departmental accounts. . . .

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# ACCOUNTANT

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Profession

# Tax and the Defaulting Client

T is one of the vicissitudes of a solicitor's professional practice that his dealings with a client only too often coincide with a difficult and sometimes critical period in the client's career, whether he is purchasing or selling property, or worse still, engaged in litigation. The solicitor's role is by no means confined to giving purely legal advice or drawing up legal documents; the client often rests heavily upon him for more general advice. And since the client is often beset at such a time by a more or less temporary shortage of cash (to add to his anxieties) there is often a good deal of pressure on the solicitor to provide financial assistance in some way or another. In this background, one would expect that where the client defaults, it would not be difficult for the solicitor to induce the Revenue to agree to the deduction of the loss in computing the solicitor's taxable profit. The actuality is sadly different, and therefore one welcomes all the more the decision of Mr Justice Pennycuick in Jennings v. Barfield & Barfield (41 A.T.C. 219), in the hope that it marks the turningpoint in the history of this particular topic.

It has been to the misfortune of solicitors generally that the classic authority is the House of Lords decision in Hagart and Burn-Murdoch v. C.I.R. (8 A.T.C. 50). A decision adverse to the taxpayer, it has set the standard for the Revenue attitude for losses in this field; particularly in the case of solicitors<sup>1</sup>, although its facts were far outside the ordinary run. The taxpayers were Writers to the Signet and they were consulted in 1932 by clients who intended to form a company for the experimental manufacture of a new alloy. The taxpayers carried out the legal business and became the company's law agents, the only relationship being that of solicitor and client. During 1923 and 1924 the taxpayers lent the company various sums totalling £2,615 without any security; not even a written promise to repay. At the same time, two individual partners acquired shares in the company, but this was purely in their individual capacities, and the fact does not seem to have influenced the Courts one way or another. The whole £2,615 became irrecoverable and was written off, but the tax inspector refused to allow this bad debt.

On appeal it was proved that the firm was in the habit of making advances to clients, when required, without security; and six examples were given. The General Commissioners asked

<sup>&</sup>lt;sup>1</sup> See, e.g., Rutherford v. C.I.R. (18 A.T.C. 273.)

whether further inquiry was desired as to the firm's practice in regard to advances but the tax inspector said he did not wish such an inquiry. The Commissioners allowed the appeal, but were reversed by the Court of Session, whose decision was upheld by the House of Lords. In Morley v. Lawford (7 A.T.C. 428), where a firm of contractors successfully claimed the deduction of a sum paid under a guarantee, Lord Justice Greek distinguished the Hagart case, saying:

'it may well be that an expenditure may be so disconnected from the purposes of the business and the nature of the business that even though it was intentionally undergone for the purposes of the trade, profession or business still it cannot be deducted. But I fail to see how that can possibly apply to the facts of this case, where it is clear to demonstration that the object of the appellants was in order to get a contract the getting of which was the very business for which Messrs Lawford & Co exist.'

With all respect to the memory of the learned Lord Justice, it is difficult to see how the first sentence quoted above can apply to the facts of any case. How can expenditure which is intentionally undergone for the purpose of the business be unconnected with the business?

Another guarantee case, however, went against the taxpayer (Homelands (Handforth) Ltd v. Margerison (22 A.T.C. 445)). An estate development company agreed with builders for the sale of its land in plots to purchasers of houses built by the builders on the plots. The builders needed finance and their solicitors required the company to guarantee the repayment of advances made by the solicitors to the builders. The Revenue refused to deduct moneys paid under the guarantee and lost by the company. Mr Justice Macnaghten, upholding the refusal, said he did not see how the Commissioners could come to any conclusion other than that the money was not 'wholly and exclusively laid out or expended for the purpose of the trade'. It is perhaps fair to assume that the taxpayer did not cite the Morley case, for there is no mention of it in the report, and it seems difficult to distinguish it.

In a case decided two years later, where *Morley was* cited, but his own decision in *Homelands Ltd* was apparently not cited, Mr Justice Macnaghten came to the opposite conclusion, in remarkable contrast to his cate-

gorical pronouncement in the Homelands case (Lunt v. Wellesley (24 A.T.C. 293)). Mr Wellesley had decided to carry on the vocation of artistic film producer and to this end acquired the film rights of a novel which he dramatized for filming. A company was formed to produce the film, and he was one of the directors. As failure to complete the production would be disastrous to his professional reputation he advanced f.1,500 to the company to enable it to complete, and also guaranteed the company's bank overdraft. He lost the £1,500 and had to pay another £1,253 under the guarantee. The General Commissioners held in his favour that the £2,753 was money expended wholly and exclusively for the purposes of his profession and were accordingly deductible. Mr Justice Macnaghten held that there was evidence on which they could so find, and for good measure he added that he himself would have so found. He also rejected the Revenue contention that the expenditure was capital.

An attempt to distinguish the Hagart decision failed in Bury & Walkers v. Phillips (30 A.T.C. 16), where a firm of solicitors had been making advances to builders for some sixty years, of which some one hundred loans at a time might be outstanding. The firm argued that its business included the lending of money, or alternatively that it carried on the separate trade of a moneylender. However, the Commissioners rejected both contentions, and the High Court refused to interfere.

In the light of this history, it can hardly be said that the appeal of Messrs Barfield & Barfield was brought under favourable auspices. This firm of solicitors was acting for a client who had arranged to sell his house and to buy a piece of land to facilitate the sale. He had also arranged to acquire a motor showroom and a house. The solicitors received a message from his bank that he needed an overdraft to complete the acquisition of the showroom, pay a deposit on the house, and provide funds for his business The bank asked the solicitors if they would guarantee the overdraft and the solicitors agreed to do so, up to £500. The client went bankrupt and the solicitors had to pay £412 under the guarantee, which they claimed as a business expense. For thirty years it had been

their practice to give guarantees for clients in such transactions, but this was the first time they had had to pay. Evidence to the same effect was given by another firm of solicitors. Similar evidence was tendered from another firm but the inspector said he was satisfied it would not carry the matter further.

The Commissioners allowed the appeal, and rejected the inspectors' arguments that they were precluded from doing so by section 137 (a) (e), (f), of the Income Tax Act, 1952. The inspector appealed to the High Court, where Mr Justice Pennycuick said early in his judgment that unless he was compelled by authority to do otherwise, he would decide that the General Commissioners were justified in the conclusion they had reached. He then held that

the findings of the Commissioners established that the giving of guarantees in favour of clients was a general or ordinary activity of solicitors in the course of carrying on their practices. It was certainly not a universal practice, nor even one followed by the majority of solicitors, but in his lordship's view there was no need to go as far as that in order to distinguish the case before him from the *Hagart* case.

It cannot be long before solicitors are challenging the refusal of deductions for money actually advanced to clients and lost. It is true that some distinction was drawn by Mr Justice Pennycuick but we venture to doubt whether there is enough difference between the two things to warrant entirely different treatment for tax purposes.

### Personal Reliefs on Accumulated Income

USEFUL provision in the case of, e.g. infants' settlements, is section 228 of the ▲Income Tax Act, 1952, which provides hat where income is accumulated for the benefit of a person contingently on his attaining a specified age or marrying, he may, on the coningency happening, claim personal reliefs in espect of the accumulating income, and thus ecover some of the tax borne by the trustees. The Inland Revenue originally took the view that elief was confined to cases where the claimant became entitled to the accumulated income itself, out in Dale v. Mitcalfe (6 A.T.C. 816) the Court of Appeal awarded relief to a beneficiary who equired only a life interest in the accumulations vhen the contingency happened. Notwithstanding hat she was not entitled to the accumulations as such, she was able to retain the tax paid on them.

This principle has now been applied to the ase where the beneficiary acquires only a proected life interest (Lynch v. Davies, November 6th, 1962). Under such an interest, if he attempts o alienate the income, or goes bankrupt, the peneficiary forfeits his right to be paid all the ncome and becomes merely an object of a liscretionary trust of that income along with his amily etc.

In coming to his decision, Mr Justice Ungoedl'homas rejected two arguments of the Crown. One was that since forfeiture could occur before the beneficiary attained the specified age, therefore, beside the contingency of attaining a specified age, there was an additional contingency, viz. not suffering a forfeiture. It followed. according to the Inland Revenue, on the authority of C.I.R. v. Bone (6 A.T.C. 670), that the requirement of the section as to the specified contingency was not satisfied. The Revenue's second argument was that, since the claimant had only a protected life interest and not a full life interest, it could not be said that income was being accumulated for his benefit, within the meaning of the section. In support of this proposition they cited C.I.R. v. Maude-Roxby (29 A.T.C. 271) where the Scottish Court of Session stated that the accumulation must be for the 'exclusive' benefit of the claimant.

The learned judge said that a protected life interest was a single interest which still existed after a forfeiture. Therefore it was not contingent on avoidance of forfeiture, and accordingly there was no double contingency. Furthermore, he refused to draw a dividing line between a full life interest and a protected life interest for the purpose of deciding whether the accumulation was for the claimant's 'benefit'; one was just as much a benefit as the other. This will be good news not only to beneficiaries who look forward to a protected life interest, but also to other beneficiaries whose future interest falls short of a life interest.

### Europe's Square Mile?

N what final conditions Britain may enter the European Common Market no one yet knows. Meanwhile, prudent men in industry, in the professions, in commerce and in the City are already seeking to assess the implications of British participation for their own fields of activity. An especially useful illustration of current thinking is provided by the Hon. ARTHUR MAXWELL STAMP's recent address on 'The Common Market's Challenge to the City' to the London and District Society of Chartered Accountants.

As an ex-adviser of the Bank of England and now a director of the City house of Philip Hill, Higginson, Erlangers Ltd, Mr Stamp's views undoubtedly carry a good deal more weight than some of the comment that finds its way into print on the case for and against British entry to the E.E.C. An important, and probably the most telling, of the many points he made, is the implicit recognition that economic policy will to a considerable extent be dictated by other than purely national considerations. Given the degree of economic integration visualized under the Treaty of Rome, 'the drive towards centralized control of the financial mechanisms will ultimately prove irresistible'.

Britain, if she enters, said Mr STAMP, would soon find a situation where there was complete freedom from all types of exchange control and probably freedom for its citizens to hold gold. At the same time, fixed exchange rates between the member countries would have to be maintained and each member would be under an obligation to pursue policies aimed at exchange stability. It is perhaps not fully realized in the United Kingdom, by what the speaker referred to as the 'economically illiterate' electorate, just to what extent successive post-war British Governments have been prepared to sacrifice exchange stability, and not least the stability of the purchasing power of sterling, on the altar of over-full employment.

There was a widespread tendency to assume that by virtue of the City's prestige and its long experience it will automatically dominate the other financial centres of Europe which are as yet smaller, less diversified and, in some cases, less efficient. In this connection, Mr STAMP made two points. 'Business', he said, 'will go to the centre which brings together lenders and borrowers most economically and efficiently. To put it brutally, if costs in London are higher than elsewhere, the business will flow elsewhere.' Secondly, he pointed out that certain factors contributing to London's share of the available business were peculiar to the present circumstances of the British economy. Just as foreigners were deterred from coming to London in the face of exchange controls and various regulations as well as ignorance of the London market, so some of the business transacted in the London market would probably disappear elsewhere but for those self-same controls.

In the course of his address Mr STAMP emphasized two important defects in the London stock-market which reduced its attractions vis-àvis European markets for prospective dealers. The first was the United Kingdom practice of deducting tax at source from dividends and certain interest payments regardless of the liability of the dealer to United Kingdom tax. It is no answer to this problem to assert that the tax may be reclaimed. The second is the high cost of dealing in London. According to Mr STAMP, brokerage in London is twice as high as in Belgium, which in turn has the highest rate in the E.E.C. The effect of stamp and other costs combined was that a rise of 7 to 10 per cent in prices was needed before a purchaser of stock could expect a profit; the corresponding figure in the E.E.C. markets is 2 per cent.

However, the City is not so beset by time-honoured restrictive practices as are some sectors of British industry, that one cannot hope that it will prove itself more adaptable than most to the impact of the Common Market. In this context as Mr Stamp concluded, accountants as professional advisers or administrators have a key role to play, for on them will rest the responsibility for initiating many of the measures necessary to take advantage of the new situations as they develop.

### THE ACCOUNTANT

## Income Tax Debts and Bankruptcy

by W. H. D. WINDER, M.A., LL.M.

OR bankruptcy purposes a bankrupt has been looked upon as continuing to carry on business, even though he has in fact ceased trading, so long as any debts of the business remain outstanding. It has been judicially stated that under the Bankruptcy Act trading does not cease when 'the shutters are put up', but continues until the sums due are collected and all debts paid. The point can be of vital importance because one of the conditions under which a creditor is entitled to present a bankruptcy petition is that the debtor 'within one year before the presentation of the petition' has 'carried on business in England' (Bankruptcy Act, 1914, section 4 (1)). Thus, even if before the operative year the debtor has ceased to trade in the ordinary sense, he may not be safe from bankruptcy process on this ground. This rule has been extended by the Court of Appeal in the case of In re Bird (41) A.T.C. 137) from an outstanding business debt proper to an outstanding liability for income tax.

Payment of income tax is one of the obligations. imposed on a trader, and the Court declined to distinguish between an income tax debt and an ordinary trade debt for the purposes of bankruptcy jurisdiction under the one year rule. The debtor had in fact ceased trading several years before the presentation of a bankruptcy petition by the Crown.

### 'Has Carried on Business'

The debtor's original business had been that of a bookmaker. He had failed to disclose to his tax inspector that he had been carrying on this business since 1932. In 1956 he admitted the fact. In 1957 the payment offered on his behalf by his accountants, to settle the liability for income tax arrears, was refused by the Inland Revenue Commissioners; a month later he went to Jersey where he lived ever since. In January 1960, the Crown obtained judgment against him for £3,622 due for income tax between 1935 and 1954. That judgment was obtained in default and in September 1960 the Crown issued a bankruptcy notice. A bankruptcy petition followed, dated October 19th, 1960, and the debtor was adjudicated bankrupt on February 24th, 1961. Leave to serve the debtor with process out of the jurisdiction had been obtained in each case, but he had ignored the proceedings.

An order followed for his public examination with which he did not comply and on April 20th, 1961, he was arrested in Jersey for contempt of Court and brought to England. He applied to the High Court to have the adjudication of February 24th, 1961, annulled and the bankruptcy notice set aside on the ground that under section 4(1)(d)of the Bankruptcy Act, 1914, a creditor was not entitled to present a bankruptcy petition against him because within a year of the presentation of the petition he had not 'carried on business in England'. This argument was rejected both by the bankruptcy registrar and the Court of Appeal.

The adjudication took effect.

A long line of judicial authority concerned with married women and the bankruptcy laws supports this somewhat unexpected conclusion. Married women were first brought within the bankruptcy law by the Married Women's Property Act of 1882 if the wife was 'carrying on a trade separately from her husband'. In the case of In re Dagnall ([1896] 2 Q.B. 407) Vaughan Williams, J., said that whether a person is carrying on a trade or not is a question of fact and that 'as long as a woman trading separately from her husband had not paid the trade debts which she had incurred, so long she was continuing to trade. It seems to me that trading is not completed until you have performed all the obligations that the fact of trading imposed upon you'. This decision has been followed in subsequent cases.

The matter was even extended by the Court of Appeal in In re Allen ([1915] 1 K.B. 285) to a debt which was not in the ordinary way a trade debt but a debt sounding in damages for negligent driving by an employee. So long as that was outstanding it was held to be good for the purpose of the rule in considering whether the trader was still carrying on her trade. Lord Justice Swinfen Eady used the phrase:

"... an obligation incurred while the debtor was carrying on her business. It is a trade obligation caused by the negligence of one of the debtor's servants, a liability which every person employing servants must expect to incur'.

### **Profits Tax Debt**

This principle of interpretation of the bankruptcy legislation was not extended beyond the debts of married women until 1950 when a further question

was agitated as far as the House of Lords in the case of *Theophile v. Solicitor-General* ([1950] A.C. 186). It was held that a debtor continued 'carrying on business in England' within section 1 (2) of the Bankruptcy Act until all trade debts were paid and that a sum due from the debtor to the Crown in respect of excess profits tax was a trade debt. According to Lord Justice Harman in the recent case, this constitutes an extension of the rule which had existed up to that time.

'It is not true to say that tax in a sense is a trade debt. It may be a debt arising out of the fact that you have been carrying on trade, and, of course, every trading company pays its tax year by year and shows it in its books in the proper way. But it is a different thing to trade debts which up to then had been used as the test.'

But Harman, L.J., added that Lord Porter's speech in *Theophile v. Solicitor-General* 'makes it quite clear that in his view liability for excess profits tax was for this purpose an equally good talisman to test whether a man had ceased to carry on business in England'.

The following is an extract from Lord Porter's speech:

'In all the cases referred to, the debts which were to be paid or collected were strictly trade debts, and it is maintained that in that respect they differ from the case under appeal in that the debt claimed by the Crown to be due is in respect of excess profits tax and that such a debt is not a trade debt but a sum due for taxes and no more connected with the appellant's business than income tax or any other tax liability. Whatever else may be said about excess profits tax, however, it is imposed upon the debtor because he has been trading, and I do not see any reason for confining trade debts to those incurred in buying or selling. In re Allen shows that they extend to liabilities incurred in incidental matters which occur during the course of carrying on the trade, including a liability for the careless driving of a servant resulting in an accident.'

### No Difference between Profits and Income Tax

Counsel for the debtor in *In re Bird* had to try to distinguish between excess profits tax and income tax in order to prevent the *Theophile* case being binding on the Court of Appeal. He argued that excess profits tax is ineradicably connected with the trade of the debtor. If he did not trade, and if he did not make profits beyond the standard profits, he could not possibly have excess profits tax to pay and, therefore, the two are inseparably bound up and the one arises solely out of the other. Different, counsel argued, is income

tax because income tax, as it is levied under several heads or schedules, one source of income may cancel out another; losses in trading may be set off against income from investments and so forth. This means that you never can tell at the moment you 'put the shutters up' how much income tax at the end of the financial year you will have to pay, whereas at that moment you do know, or could know if you had your accounts made up to date, how much excess profits tax you would have to pay. Therefore, the argument ran, the two taxes are not on the same footing, income tax being a congeries of liabilities arising out of various activities.

This ingenious distinction did not find favour with the Court of Appeal. The great preponderance of the judgment debt of £3,622 did arise under Case I of Schedule D; that case is concerned with the profits of a trade, so one can, as Harman, L.J., saw it, point to that and say: 'This is an obligation which the fact of trading imposes upon you.' He concluded thus:

'That is a very simple test and it applies to Schedule D income tax, as it seems to me, no less than to excess profits tax, and to try to draw a distinction between them in a bankruptcy matter would be a disastrous refinement which I for one am not prepared to countenance.'

Would that some other disastrous refinements both of bankruptcy law and of income tax law had suffered similar condemnation.

### **Debt for Accountants' Fees**

A question which it was not necessary for the Court formally to decide was whether the moneys owing at the date of the petition to accountants employed by the bankrupt to negotiate with the Inland Revenue concerning his tax liability constituted a trade debt for the purpose of this bankruptcy jurisdiction. The accountants claimed £175 which arose in connection with their work between the years 1954 and 1957. Although it was not necessary finally to decide the matter, Lord Justice Upjohn concluded that it was an available debt which could be relied on for the purposes of section 4 of the Bankruptcy Act, 1914. Harman, L.J., said that he inclined to the same view and Diplock, L.J., preferred to express no view.

The bankrupt had kept no books, or at any rate disclosed no books.

'In due course', said Upjohn, L.J., 'when the' Government had caught up with him some twenty years later from the commencement of his trade, he was, of course, compelled to submit to demands

by the inspector, and he sought the assistance of a firm of accountants to advise him upon the matter. It seems to me quite irrelevant that all the accountants could do was to make an assessment of the capital situation of himself and his family from time to time because, in the absence of proper books, that was the only available method of trying to reach some idea of what the annual profits from his business were. Here were the accountants brought in to assist the bankrupt in dealing with his income tax affairs, principally in connection with his business.'

It is quite true, as was pointed out in the udgment, that in the case of *Smith's Potato Istates Ltd v. Bolland* (27 A.T.C. 131) Lord of order said that the fees of accountants brought in o deal with income tax assessments are unlike he fees of accountants preparing the ordinary

trading accounts and cannot be treated as expenses for the purposes of Case I of Schedule D. Lord Porter was saying that the fees payable to accountants for dealing with income tax matters are not money wholly and exclusively laid out and expended for the purposes of trade. But In re Bird seemed to Upjohn, L.J., to be quite a different case. The bankrupt knows that one of the obligations which his trading will impose upon him is the payment of tax and, as a practical matter in order to agree the tax with the inspector of taxes, it is quite usual to resort to the assistance of accountants. That is one of the obligations that he had to enter into in order that the tax might be agreed and so, like the tax, falls within the principle stated by Vaughan Williams, J., in the case of In re Dagnall.

# The Accounting World

### TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

### CANADA

### Increasing Demands on the Accountancy Profession

A survey of the diamond jubilee year of the Canadian Institute in the September issue of *The Canadian Chartered Accountant* concludes with comments on the undeniable evidence of the profession's remarkable advances in status and range of activities over the years. It warns, however, of the danger that some accountants may not realize the extent to which the bareads of economic life are becoming more closely yoven internationally, so that they may not be preparing for the day when their services to industry, both in the national and international fields, will be needed to a far wider degree than is provided at present.

### UNITED STATES

### **Restudying Accounting Principles**

In an Accounting Research Study entitled A Tentative Set of Broad Accounting Principles for Business Enterprises, Dr Robert T. Sprouse, of the University of California, and Dr Maurice Moonitz, Director of Accounting Research of the American Institute, follow rigorous rules of logic in reexamining the basic postulates of accounting and the principles which they support. A commentary by Mr Paul Grady, c.P.A., takes a more pragmatic approach. He is a member of the project advisory committee of the American Institute of Certified Public Accountants, and the new accounting research programme is clearly faced with the problem of whether the aim

should be to develop principles which eliminate inconsistencies and then try to reconcile them with practice, or, following Mr Grady, to describe current practice and then try to eliminate the inconsistencies.

Mr Grady sees good accrual accounting as holding the solution to most of the dingy areas of accounting practice. Dr Sprouse and Dr Moonitz also favour a more rigorous application of accrual accounting principles, but they urge that some of the principles now 'generally accepted' are incompatible with sound accrual accounting. Thus, they say, if 'cost or market, whichever is lower' is proper for valuing inventory, so is 'cost or market, whichever is higher', where the higher market can be measured with equal objectivity. Hence they suggest that the generally suggested principles of conservatism and realization may be incompatible with the basic principle of accrual

Mr Grady says that some months ago the Accounting Principles Board agreed that the assumption in accounting that fluctuations in the value of the dollar may be ignored is unrealistic. He calls this recognition of the necessity for price level adjustments the greatest forward step ever taken in accounting. The study project still has to deal with such matters as criteria for determining what are substantial fluctuations and for selection of indices, but the gap is now closed which has existed between acceptance of LIFO inventory valuation and rejection of fixed asset depreciation on anything but historical cost. He suggests, therefore, the following basic concepts and objectives for financial accounting: (1) the purchasing power of equity capital invested in an enterprise, whether by assets contributed by stockholders or by retained earnings, must be maintained in statements

of financial position; (2) periodic business income is to be determined by the matching of revenues and related costs and expenses, all in homogeneous current monetary units.

### **PAKISTAN**

### New President of Pakistan Institute

MR M. M. AHMAD, Secretary, Ministry of Commerce, Government of Pakistan, has been elected President of The Institute of Chartered Accountants of Pakistan for 1962-63.

### OVERSEAS TAX DEVELOPMENTS

The following information has been supplied by the Foreign Section of the Library of the Board of Inland Revenue.

#### France

The following provisions are included in Law No. 62-873 of July 31st, 1962:

### Depreciation

An initial allowance of 50 per cent in the year of acquisition etc. may be taken by undertakings investing in buildings for scientific and technical research purposes. This provision applies to buildings acquired etc. on or after January 1st, 1960.

Industrial and commercial buildings completed before January 1st, 1966, the construction of which has been authorized by special arrangement with the Ministry of Finance etc., may benefit from an initial allowance of 25 per cent. (Not to be taken together with that for scientific research buildings.) Industrial buildings qualifying for either of the initial allowances outlined above, completed after July 31st, 1962, and whose useful life does not exceed fifteen years, may be depreciated by the reducing-balance method.

### Profits from participations

Where a French company receives dividends from a French or foreign subsidiary only the following percentage parts of the net dividends are liable to company tax in the parent company's hands:

Degree of participation			Per cent taxable
Less than 35 per cent			20
35 per cent to 50 per cent			10.
50 per cent and over			5
No new taxes are provided	for in	the 196	3 Budge
out some reduction of the	rates of	fincor	ne tax

promised.

#### Luxemburg

Under the provisions of a law of June 2nd, 1962, the investment allowance given in respect of new investments in plant and machinery or assets of a social character acquired in the years 1962 to 1964 and

whose cost price exceeds 10,000 francs, has been amended. The allowance is:

30 per cent on the first 2 million francs of new investment

20 per cent on the next 230 million francs of new investment

To per cent on the excess over 250 million francs. However, where complementary investment (net increase in fixed assets) exceeds 250 million francs in the year, the allowance may be taken at the flat rate of 20 per cent if this is more beneficial. The allowance is spread equally over the year of acquisition and the

following three years.

New industry relief. Under the same law, new approved industries, the establishment of which is commenced not earlier than 1962 and completed not later than 1965, may, under certain conditions, obtain exemption from income (corporation) tax and the local trade tax on 25 per cent of their profits for the first eight years of operation. Existing undertakings introducing new manufactures may also benefit from the exemption on condition that the exemption does not exceed 2.5 per cent of the cost of the new assets or, where the value of the new assets exceeds 300 million francs, 20 per cent of the total profits of the undertaking.

### Portugal

A new code on the application of capital enters into force on January 1st, 1963. The tax previously entitled 'Imposto sobre a Aplicação de Capitais' will be called 'Imposto de Capitais'.

The general rate of tax is reduced to 15 per cent (previously 16 per cent) and dividends distributed by companies subject to income tax under Contribuição Industrial, will be taxed at 5 per cent (previously

12 per cent).

Sections 'A' and 'B' of the tax are retained. In section 'A', interest arising from loans granted to facilitate credit sales are exempt. In section 'B', the scope of the tax on dividends received by shareholders is widened: it now extends to managing as well as non-managing share (cota) holders. Deposit interest is exempt. Profits distributed by holding and finance companies to its members are exempt, in so far as they arise from interest and dividends on Government securities. Companies may now transfer reserve funds to working capital without attracting tax.

#### India

The Income Tax Rules have been reprinted and issued as the Income Tax Rules, 1962, effective from April 1st, 1962. The only significant change apart from renumbering is that provision is made for the higher rebate on life assurance premiums for authors, actors, etc., the limit in these cases is the lesser of 33\frac{1}{3} per cent of professional income plus 25 per cent of other income or Rs8,000 plus 8\frac{1}{3} per cent of professional income up to a maximum of Rs12,000.

## Financial Reporting and the World Economy

### with Particular Reference to Reporting to Outsiders

by R. O. A. KEEL, F.C.A.

### I. Introduction

THAT is meant by financial reporting? I interpret the term to mean the reporting by an enterprise of the financial aspects of its activities and of the manner in which its funds are atilized. Naturally, such reporting is effected in very diverse ways by many different types of concern.

2. With such a range for financial reports I hope I may be forgiven for confining comment mainly to a particular and most important sector. In interpreting the theme of this Congress I have concluded that an accountant attending this gathering, coming from countries with systems of free enterprise, is most likely to be primarily concerned with financial reports of commercial enterprises. It is probably the published annual report and accounts of a public company (i.e. a company whose stocks and shares are quoted on a recognized stock exchange) that demand his greatest attention. Such companies have investors from many sections of the community in which they are active, and in more and more cases not only do they operate on an international scale, but investment in them too is developing beyond their country of origin.

In Great Britain in addition to public companies certain private companies, basically those which are not owned wholly by private or family interests, have to file their annual report and accounts at the Board of Trade, where they are open to public inspection. To a lesser extent these are also of interest to outsiders - particularly creditors and would-be acquirers of those concerns. The contents of these statements are, however, practically in all cases restricted to the bare legal requirements. Reference in this paper is therefore mainly directed towards the public company.

- 3. The accountant uses his expertise in the production of financial reports:
  - (i) as an independent professional man providing a service;
  - (ii) as an adviser or an employee of
    - (a) Government departments and organizations;
    - (b) public and private companies and organizations:
    - (c) individuals.

In the preparation and presentation of financial reports he makes a characteristic and particular contribution to the best conduct of trade, both locally and internationally. Such trading, by enabling people and peoples in all their various circumstances to labour to the maximum of their ability, will assist A paper presented at the Eighth International Congress of Accountants in New York

toward improvement in the world economy. Further, it is through the best prosecution of production and trade (using these terms in their broadest sense) that the vast capital resources, so desperately needed in the world today, will be provided.

4. Financial reporting is a major means of communication in presenting the activities of commercial enterprises both great and small. It is a cornerstone in the trading structure, helping to bridge the gap between producer and user, between owner and manager and between commerce and Government. There is no doubt in my mind that more effective and more enlightened financial reporting has a considerable contribution to make in our civilization in the universal effort towards a fuller and better life for mankind.

### II. The Objectives of Financial Reporting

5. In reporting the financial results and the financial situation of an enterprise there are three main objectives:

First, an account of stewardship (where the steward is other than the proprietor) illustrating the way in which the resources have been used, the effects of that usage on those resources and the manner in which such resources are held.

Second, a demonstration of the efficiency of the use of capital, showing the advantages of owning an interest in the capital and the possibilities for any further capital to be raised; and indicating the security of funds, the scope for the enhancement of

Mr R. O. A. Keel, F.C.A., the author of this International Congress paper, is managing director of Heinemann Publishers Ltd, one of the Thomas Tilling group of companies of which he was formerly secretary. He was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1948. At the Institute's 1961 Oxford Summer Course he presented a paper on 'Prob-lems of a group on the acquisition of companies'.



retained resources and the level of periodic payments as dividends upon the capital.

Third, a statement of the moneys due to those other than the proprietors, setting out the extent to which and the manner in which amounts due to creditors are matched by the net assets.

- 6. The development of financial reporting, in attempting to fulfil the above objectives, has encouraged the following further aims:
  - (a) to build up confidence in financial statements, particularly where these are audited, so that trust may be more readily placed by the owners of the capital invested in the company for the delegation and carrying out of the many, varied and often considerable tasks which arise in the prosecution of modern commerce;

(b) to attract the sums which are required to be subscribed in the development of existing and

new ventures;

 (c) to direct moneys and other resources to those activities and concerns that merit support because of their comparatively better record in review and in prospect;

(d) to ensure the reward of the successful and the censure of those that fail through the discipline which the accountability of financial reporting exerts over both stewardship and effective working; and

(e) to encourage a greater volume and smoother flow of trade by the engendering of confidence

between parties in credit dealings.

- 7. Financial reports should portray events and situations. What are the events that feature in these statements? Essentially, they are ways in which the business has moved from one situation to another, over a given period of time. Since normally the main purpose of a commercial concern is trading and the employment of its assets for profit, the major event to be reported is the result of these activities. In stating the result, items of significance affecting the statement will need to be separately set out so that there may be a proper appreciation of the relative effectiveness of the activities particularly from accounting period to accounting period and over a series of such periods.
- 8. There are also other events to be reported. These occur mainly upon the movement of capital funds into and out of the business, and upon changes in the patterns of investment in assets and of the funds which they represent.
- 9. Anybody with an investment in a company or a right against it will be keenly interested in the state of its affairs in relation to his particular risk. A statement of the financial situation should establish the manner and amount in which assets are held and indicate the means by which these have been financed.
  - 10. The matters reported may relate to
  - (i) recent events;
  - (ii) the most recently surveyed situation;
  - (iii) a series of past events or situations;
  - (iv) a projection of future events or situations;
  - (v) an adjusted series of past events on the assumption of an amended basis of operation.

The statements that emerge can take many forms, and but in Great Britain they are basically:

- (i) the profit and loss account (trading results and the distribution of income);
- (ii) the balance sheet (funds and the way they are represented by assets);
- (iii) the source and use of funds statement;
- (iv) the prospectus (request for new moneys).

Such reports are produced in varying degrees of detail and complexity, often supplemented by notes, tables, schedules and descriptive commentary.

### III. The Readers of Financial Reports

- nn. Financial reports are written to be read, but many are inadequately designed for the requirements of the reader. It may therefore be salutary to consider the reader. Readers outside the company fall into a number of quite distinct categories investors, creditors, the Government, customers and suppliers, the Press and accountants.
- 12. Since situations in our civilization are often complex, it is not surprising that it is difficult for the layman to appreciate many of the financial aspects of those situations. One of the most important parts of the art of the draftsman of published financial statements is presentation in a clear and precise form which has a maximum of significance and a minimum of detail. In this way the message is conveyed more effectively. However, some jargon and special methods of presentation are unfortunately unavoidable if precision is to be achieved. This understandably has brought forth an army of advisers, commentators and interpreters, each class of reader having its own special brand of mentor. Press comment in particular has found a special place for those seeking information.
- 13. The following question often arises: How fall should a set of published accounts or any other document portraying financial information cover the interests of all the readers likely to be concerned? Many answer this question by confining themselves to bare legal requirements and to presenting a picture which caters for the needs of the most immediate reader who, in the majority of cases, is the owner of an interest in the capital, viz. the shareholder. Others provide a mass of confusing but fascinating data for everyone, from the shareholder to the buyer of the company's products and beyond. May I leave this question with you for your discussions?
- 14. Returning in a little more detail to the categories of reader:

### (i) Investors

Investors are of two kinds – current owners of the equity and preferential forms of share and loan capital, and prospective investors. It must be presumed that the present investor has some knowledge of the company and therefore his requirements will not be the same as those of an intending investor.

The latter will require much more information on the past history and profit records of the company a fact which is reflected in the usual contents of a prospectus for the issue of new capital. Information will in many instances be interpreted for the investorby his professional advisers.

In Great Britain the growth of insurance companies and of the pension scheme movement has meant that interests of a particular type are appearing which have well defined likes and dislikes in such matters as incidence of tax, patterns of income growth and trends of capital appreciation. It is also of interest to note that trustees with powers of investment which have been restricted by the Trustee Act, 1925, to Government stocks and other fixed interest securities have now been given wider powers by the Trustee Investment Act of 1961. This enables half of the trust fund to be invested in equities of British companies having a paid-up capital of at least fi million and an uninterrupted record of dividend payments on all issued capital for at least the previous five years.

The interests of investors do of course vary considerably; consider, for example, the individual investor, the unit trust, the investment trust, the commercial concern with trade investments and the holding company. The years since the passing of the Companies Act of 1948, which introduced a new era in financial reporting in Britain, have seen a flood of mergers, acquisitions and take-overs. Much of this has come about because of the reading of financial reports upon companies that have set out more clearly the possibilities for these companies.

### (ii) Creditors

The term creditor embraces a wide variety, in terms of amount, security, interest and repayment. To the extent that the debt is permanent the right is akin to hat of the investor. In other instances the creditor-reader is keenly concerned that adequate assets exist to meet his particular claim on the business – in fact the greater the adequacy (or cover) the better. He is also concerned for the state of liquidity of that part of the assets that should be available to meet his claim. The extent to which the profits of a company have exceeded the prior charges for interest on loans – not for one year alone but over a series of years – also has a significant influence on the confidence of the relevant loan creditors.

As the investor has his adviser so has the creditor. Inquiry agents, debt collecting agencies, banks and nany others play a vital part in providing information on credit status. Although many details are obtained issewhere, much valuable commentary is elicited from financial reports. Many creditors, in particular enders of money such as banks and finance houses, will ask for financial reports even where these are not published or filed at the Board of Trade Company Registry. Such requests will both precede the making of a loan and be repeated during the currency of the lebt.

### (iii) The Government

Government in Great Britain comprises a number of different sorts of reader. The results of the great nationalized corporations – the railways, the airlines, parts of the road transport system, gas, electricity, coal and others – come under the direct scrutiny of Parliament. The whole of the commercial system is appraised, and in due course assessed, by the Inland Revenue for the purpose of income tax and profits tax. The Board of Trade acts as an instrument for statistical survey and report. This is effected in order to inform both the community and the Government, to assist the latter in commenting upon past economic policy and to render guidance in the formulation of economic plans.

### (iv) Customers and suppliers

The contents of financial reports are of interest to and indeed are often directed at customers, potential customers and suppliers. Some reports practically amount to straight advertising of products – perhaps not a desirable trend – while others aim to build prestige and an image in the public mind. Business may be influenced just as much by the financial reputation of a company as by the commercial value of its products or services. This is particularly so where there are to be guarantees on products, where service is to be provided or where repeat orders are likely to occur. Customers as well as suppliers may seek financial information on the lines indicated for creditors before establishing trading relationships.

### (v) The Press

Press comment upon financial reports is widespread and growing: even the tabloid newspapers are taking up this newsworthy subject. Perhaps the growth of insurance companies and of pension schemes and their considerable investment in industry and commerce has much to do with this, and also the general realization of the vital role played by our great companies in the lives of all the people. There is often real drama if not in the lines of the reports then certainly between them.

There are three types of Press, to each of which clarity in the financial report is essential to prevent misinterpretation. First, there is the financial Press, which is a specialized Press writing for a public which it assumes to be comparatively well informed on financial matters and capable of understanding accounts. Their readers are present and prospective investors who take an interest in their investments. There is also the general Press writing for a less informed public who may also be investors or prospective investors but they are not expected to be so conversant with financial matters. The third category embraces the trade papers and the local Press. These journals perhaps take a rather specialized or local view of a company's activities and results, which undoubtedly are of sincere interest to their readers.

### (vi) Accountants

The accountant as a reader of financial reports is a seeker of new ideas. He should endeavour to draw upon as wide a selection as possible of sources to equip himself for his daily tasks of drafting accounts and advising clients. In my view any accountant who is not an avid reader of accounts and reports, of commentary and of criticisms of them, is likely to be left behind in the best practices of draftsmamship and finance as they affect published financial reports.

### IV. Background to Financial Reporting in Great Britain

15. The history of company legislation in Great Britain shows the increasing importance attached to publicity in connection with accounts. The midnineteenth century saw the introduction of the principle of limited liability. The law relating to companies was codified in 1862 - exactly one hundred years ago - but the appointment of auditors for all companies did not become mandatory until 1900. In the present century committees have been appointed from time to time to look into company legislation, and these have resulted in the Companies Act of 1908, 1929, and 1948, each requiring more financial information to be disclosed. In 1908, companies other than private companies had to file a balance sheet annually at the Companies' Registry. It was only in 1929 that the law required both a balance sheet and a profit and loss account to be filed and laid before the company in general meeting every year. Certain details to be included in the balance sheet were laid down, but the form of the profit and loss account was not the subject of regulation.

16. The latest Act affecting financial reports of companies was enacted in 1948. It deals with balance sheets, consolidated balance sheets, profit and loss accounts, consolidated profit and loss accounts and directors' reports. The statements to be prepared and their content prescribed, representing the minimum requirements. Manner and timing of circulation and publication are also laid down. The responsibility for the preparation of all these documents rests with the directors.

17. The basic requirement of the 1948 legislation as it relates to accounts is that they shall give a 'true and fair view' of the state of affairs of a company and of its profit or loss. The Board of Trade, however, has powers to relax or modify the requirements of the Act in regard to certain information to be given, other than the basic requirement just mentioned, for the purpose of adapting them to the circumstances of a company. In my experience these powers have been used with sound judgment and have not been construed as a mandate for major variation in the requirements, but for assisting presentation in difficult and exceptional circumstances, as for example where a major upheaval in the organization

of a business has made the inclusion of normal comparative figures inappropriate.

18. In addition to the Companies Act there are other Acts of Parliament that lay down regulations for the accounts of special types of corporation such as building societies, insurance companies (which are also regulated by the Companies Act), companies incorporated under Royal Charter or special Act of Parliament and nationalized undertakings.

19. A new Companies Act is now contemplated. A committee under the chairmanship of Lord Jenkins has been receiving evidence since early in 1960. Along with other bodies my own Institute has put forward submissions on accounts, among other matters, which propose extension of the information to be reported and modifications of present requirements in the light of experience since 1948. It has recommended among many other items that subject to certain provisos disclosure of turnover should be compulsory. Representations have been made by a large number of bodies and persons in the United Kingdom with experience and interest in accounts, and further points of current concern include the following:

- (a) the need to clarify the distinction between fixed and current assets, and to fix the legality or otherwise of the distribution of profits realized on the sale or arising upon the revaluation of fixed assets;
- (b) the disclosure of cost of sales as well as of turnover;

(c) the publication of quarterly statements of a company's earnings:

(d) the substitution for amounts of fixed assets based on historic cost, which some claim to be a misleading basis, of amounts more closely relevant to current values. (This would have its repercussions on depreciation charges. My own Institute has regarded the retention in Great Britain of the historic cost basis as having on balance many significant advantages);

(e) the provision of information on the activities of a company and its subsidiary and associated companies, together with the publication of the

names of those companies;

(f) the giving of details of interests in the assets and profits of companies in which more than 10 per cent of the equity is held, but which are no subsidiary companies.

20. With legislation existing in Great Britain prescribing the presentation and content of accounts the stock exchanges have imposed little additional regulation on accounts for companies making use of the facilities of the market. However, the making of an offer for a controlling interest in a company take-over bid) is an occasion when a financial report may be required to be prepared and circulated to the persons involved. Where the value of the shares to be acquired or the earnings attributable to them exceed respectively 5 per cent of the net assets of the acquiring concern or 10 per cent of its profits, the stock exchanges normally insist that detailed informations.

mation on the prospective financial situation, the trading outlook and the working capital arrangements of the acquiring company, and on the past results and present situation of the business to be acquired be provided. Although other details of the deal are required by law, this accounting data is not legally mandatory at present.

21. The Institute of Chartered Accountants in England and Wales over the last twenty years or so has produced a series of recommendations and notes for guidance on matters of concern to the accounting profession. These have included indications as to the best practice in the preparation of financial reports. They are subject to public discussion and are reviewed and reissued in the light of experience and changing conditions. The earlier statements had a profound influence on the accounting provisions of the 1948 Companies Act. The current statements embrace, among many other items, notes on accounting principles and interpretation of company legislation on accounts. Recommendations are kept under continuous review and amended or added to when experience shows that this is necessary.

22. The pressure for more and better financial reporting in Great Britain is both strong and continuous. The accounting profession is not alone in this activity. The specialist accounting Press, the financial columns of the general Press and the financial, economic, banking and political journals are all equally alive in this matter. Bodies such as the Society of Investment Analysts and the Institute of Economic Affairs have published papers. Since 1954 two annual awards have been made by the weekly journal The Accountant, one to a large and one to a smaller company, for the year's best set of annual accounts. The number of entries for these prizes increases year by year.

### V. Types of Report and their Content

23. For a public company in Great Britain financial teporting falls into two main categories – occasional and periodic statements.

24. Issues of new capital for cash and offers for acquisition or merger represent occasional events upon which statements will be issued. A prospectus for a lnew share issue to the public is regulated by the Companies Act, and to a small extent by the stock exchanges. Details required to be included in the prospectus are considerable - though I understand far less than those required to be disclosed in the United States - and the documents themselves are videly circulated and advertised in the Press. Statements published upon issues of new shares, the ubscription for which is restricted to existing members (rights issues), are controlled only by stock exchange regulations and not by law. However, it is possibly that some legal requirements on this matter may be included in a new Act that seems bound to follow the report of the Jenkins Committee. It is

noteworthy that stock exchange requirements on rights issues demand a statement from the directors, on current prospects brought as far up to date as possible. Where a prospectus is not involved disclosure of the purchase consideration and anticipated yield upon acquisitions and mergers is not at present mandatory and practice on this varies considerably.

- 25. There is a growing practice to publicize companies generally. Although not strictly a financial report, none the less such publication may refer to a company's record, resources, activities and policies. It has for its purpose the creation of a better understanding of a company and its constituent parts, particularly by investors, customers, suppliers, associates in business and employees. Responsibility for the information lies with the directors, as do the decisions on form and content.
- 26. Periodic financial reports issued by public companies include the following quarterly and half-yearly statements, preliminary announcements of results on their adoption by a board of directors, the annual report and accounts and a report of proceedings at the annual general meeting. In all these documents there would seem to be the need for certain aims:
  - (a) Maximum disclosure consistent with the best interests of the company, its shareholders, its employees and national security.

(b) Minimum of detail consistent with the proper explanation of events and situations under review.

- (c) Clarity, simplicity and consistency of presentation to promote ease of assimilation on the part of the reader.
- (d) Attractiveness of layout to engender interest, whereby the matter presented may be the more forcibly conveyed.
- 27. Although encouragement is being given to the issue of quarterly and half-yearly statements, in Great Britain there are no regulations compelling their publication. Those that are produced cover a statement of profit before and after tax, comparative figures for the previous full year and for the comparable period under review in that year and often a general statement on current trading and dividend prospects for the whole of the current year. Occasionally turnover is also included, but balance sheet figures are not appended and the statement is usually unaudited. The number of companies providing this service is small but growing. However, it should be recognized that there are companies (such as those with major projects extending over many years, e.g. the building of atomic power stations) who have difficulty enough in presenting fair annual results, let alone more frequent statements.
- 28. When the board of directors of a public company in Great Britain meets to approve accounts and to decide upon recommendations on dividends and other relevant matters, the stock exchanges require

that a preliminary announcement containing specified details be issued in advance of the circulation of the annual report. Such an announcement must include all dividend, interest or cash bonus decisions, net profit and tax figures for the year with comparisons and group figures where appropriate, and any other information necessary to enable an appraisal of the position of the company to avoid a false market in its shares. By way of example, Thomas Tilling Ltd, the parent company of my own group, lists in this preliminary announcement the principal acquisitions and realizations of interests made during the year under review, and indicates their financial effect.

- 20. Before coming to the all-important annual report and accounts, perhaps a word or two about the extent of circulation of that document and others may not be amiss. The law in Great Britain requires that the annual report of a company be sent to all members and debenture-holders. The stock exchanges mayalso require a company to circulate information to its members on a significant acquisition of another business. Further distribution and advertising is a matter of policy. Most large public companies advertise their chairman's review together with abbreviated information on the year's results. Many offer to provide copies of the annual report on application. Tillings has a long list of non-shareholders who have asked to be supplied with the annual statement.
- 30. What should be included within the covers of the annual report and accounts? British practice suggests the following main items:
  - (i) the chairman's review (which is not a statutory statement);
  - (ii) the statutory report of the directors (usually a short and strictly formal statement);
  - (iii) the profit and loss account ('consolidated' where there is a group);
  - (iv) balance sheets (both parent and 'consolidated' balance sheets are required by law);
  - (v) notes on the accounts;
  - (vi) the auditors' report.

The chairman's review is of prime importance from the layman's point of view and for giving a clear guide to the results, policy and prospects of the company, and it is for these reasons often placed early in the list. The profit and loss account is broadly looked upon as having more significance than the balance sheets and often precedes them in the order. Practice on the order generally as between accounting and other information is fairly divided. My own company tends to keep accounts together in the latter half of the annual report with general and descriptive matter (which is often of greater interest to the lay reader) at the front.

Further items that appear in annual reports include:

 (i) the notice of the annual general meeting, accompanied (often as loose inserts) by notices of any extraordinary general meetings,

- explanatory matter on such meetings and proxy forms;
- (ii) a list of directors and officers of the company giving their executive positions where apposite:
- (iii) a list of the companies in a group;
- (iv) photographs and illustrations of activities and personalities;
- (v) a statement of the results of the year in brief;
- (vi) an analysis of profit, showing the contribution of significant sectors of the company;
- (vii) a long-term record, of results and funds together with ratios, usually over ten years;
- (viii) an analysis of share ownership;
- (ix) statements of sources and uses of funds.

Before dealing with some of these items in more detail, I would again emphasize the value of good presentation through the proper consideration of such matters as size of document, quality of paper, style and colour of print and design of page layout.

- 31. The chairman's review or address is often included in the annual report, though on occasions it is withheld until the annual general meeting. Circulation in the latter case is then often made after the meeting. In the former case a report of the meeting itself, including more up-to-date information on the progress of the company, is sometimes issued. The review itself provides commentary on the year just passed, on the elapsed part of the current year and on the future. Many chairmen discuss the general economic and political situations in which the company has operated and is about to operate, relating the company's results to the effect of those situations. Certainly in Great Britain such published commentary is an invaluable and objective source of up-to-date information for others engaged or about to be engaged in similar fields. Sometimes, unfort nately, this is the very argument used by chairme for refusing to give any really useful information in their statements. Where the company is active in a number of distinct fields it is usual for consideration to be given under those heads. Financial information given by the chairman will not repeat the details given in the accounts, but he may explain the dividend policy, emphasize major items in the accounts, refer to capital plans and indicate in duly circumscribed terms the prospects for profits and dividends. Tillings also appends a statement of the aims and considerations which direct the policy of the board. Sometimes the more personal approach of the chairman's review is replaced by an extended and more detailed report of the directors. However, as noted earlier, this report is often strictly formal and quite short, being confined to the statutory requirements of dealing with the state of the company's affairs appropriations of profit and any material changes in the company's business or subsidiaries.
- 32. The main purposes of the annual accounts themselves are to state the profit or loss from the year's trading; to set out the financial situation at the

ad of the year; and to compare the figures with lose of the preceding year, explaning changes other han from trading since the last financial report. In ritain accounts have to be produced to the company a general meeting, made up to a date not more than ine months before (twelve months if there are sterests abroad). Most companies produce them ell within that time. The value of accounts is much educed if they appear too long after the balance neet date.

- 33. Statutorily there is only need to state by way of ote, if not otherwise shown, any material respects in hich any items shown in the profit and loss account re affected by any change in the basis of accounting. 'he purpose is to reveal the extent of any distorting fect upon profits of such a change, e.g. in the basis f valuing stock-in-trade (inventories in American rms). This may be adequate for comparing the equence of results of a single business. It has to be ecognized that the proper comparison of results of a umber of different companies may be prevented by ne adoption by them of varying accounting policies, ne bases and effects of which are not disclosed. On ractical grounds, particularly in a large and varied roup, the detailed disclosure of accounting policies lay not add much to the situation.
- 34. To keep the accounts simple, clear and free of straneous material, much detailed information as elegated to notes. Such notes necessarily form an itegral part of the accounts.
- 35. Disclosure of the provision for depreciation of xed assets is a statutory requirement. The annual harge must be stated, and if this is other than by way f depreciation or renewal provision or if there is no rovision, then the method used or the fact that no rovision has been made must be stated. Accumuted depreciation applicable to the main fixed asset assifications, based on cost or on a revaluation which has been reflected in book values, is deducted on the face of the balance sheet or, if there are numerous lasses of asset, in the notes to the balance sheet.
- 36. Stock-in-trade is classified as a separate item nder the group heading of current assets. The irectors have a duty to state if in their opinion ocks (or any of the current assets) have not a value on salization in the ordinary course of business at least qual to the amount shown on the balance sheet. My wn Institute has suggested that the basis of valuation of stock should be stated. Where due to complexity this is not practicable, it is recommended that n assurance be given that the bases used are ppropriate and have been applied consistently.
- 37. There has been some variation in the style and orm of accounts over recent years. The 'vertical' ayout seems best adapted for the profit and loss count, so as to show successively total sales and ther income and its cost, net profit and the taxation: bears and appropriations of taxed profits. The ertical balance sheet supports the trend towards

simplification and explanations for the lay reader. However, the total assets shown by one side of the traditional two-sided balance sheet are readily equated with the funds provided and borrowed as shown by the other side and present, it would seem, a sound argument for this form.

- 38. Reference has already been made to some of the items of supplementary information which may be included with the accounts in the annual report. One or two further remarks may be appropriate at this point. Where a company is of a complex character in its trading activities, then for a proper appreciation of its accounts it will probably be necessary to append additional details in explanation of the results, the present situation and prospects. This may be done in the chairman's address in narrative form; or by listing the main companies or divisions in the group, indicating their importance in terms of their contribution to profits and of their proportion of the assets of the group (perhaps also noting their activities, location of operation and chief executives); or by dividing the profits and turnover, and also the assets on a geographical basis where this is of more significance.
- 39. The wider ownership of shares in companies is leading to inquiries about the manner of ownership of the more significant public companies and some lesser ones too. Already a few companies provide an analysis of shareholdings, giving numbers and percentages according to size of personal holdings and under other categories. Prevalence of holdings by nominees can seriously affect the validity of such analysis. Under present British law with one minor exception, the fact that shares are held by a nominee on behalf of another need not be recorded by a company nor need the beneficial holders be disclosed in a company's register of members.
- 40. Statements of sources and uses of funds, both for the year under review and over longer periods, are appearing more frequently. Certainly the financial Press pays considerable attention to cash flow. The layman is being educated rather slowly to the value of this statement. In Great Britain its production is neither statutory nor the subject of much encouragement, but it is beginning to appear in more and more accounts.
- 41. I would make a plea for the inclusion of information on two items of particular importance in these days of acquisition, merger and general growth: first, the showing of the contribution to profits of new interests acquired between accounting dates, and second, the demonstration preferably in the long-term record of the return on equity capital.

### VI. Statistical Uses of Financial Reports

42. Through the study of financial reports, i.e. company accounts, over a sufficient number of years and from an adequate number of companies, statistical interpretation may be effected on a national or

even an international scale, for the resolution or at least the illumination, of a variety of economic problems. Such study does in fact take place in Great Britain having been initiated by the National Institute of Economic and Social Research in 1950. The work is being continued by the Board of Trade, and regular information is published quarterly. The initial National Institute study covered five years' accounts of some 3,000 public companies, and these were analysed in total and under twenty-one industrial groupings. Many companies gave assistance in this work. The results were issued in book form under the title *Studies in Company Finance*.

- 43. The Companies Act of 1948 introduced for the first time mandatory production of consolidated or group accounts. As many major British undertakings are operated as groups of companies, it was only after this Act that financial information of real value was made available. While much of the interpretation in the Studies has been of relationships within the accounts, developments in the business situation from year to year have not received so much attention. In the conclusions to the Studies it is stated that one of the main obstacles to commentary upon the changing scene is the inadequate information provided by many companies in their accounts, particularly the lack of turnover figures. It is of interest that the totalled figures for the 3,000 concerns were set out in three types of table:
  - (i) composition of net income and its disposal; (ii) composition of net assets and the funds
  - represented;

(iii) sources and uses of funds.

Comment was made under the following headings:

- (i) dividend policy and income appropriation;
- (ii) self-financing;
- (iii) capital issues; (iv) bank credit;
- (iv) bank credit; (v) trade credit;
- (vi) size, growth and concentration; (vii) specific industrial classifications.

Some of the many indicators used are particularly worth noting — liquidity, gearing of capital and relevant income, saving and investment, and income ratios.

44. The conclusions drawn from the National Institute Studies make most interesting reading. The variety of experience and behaviour of companies was very great, and little homogeneity was discernible even between the accounts within a particular industry. Behaviour and structure tended to vary most directly with size.

In the period 1949-53 it was found that:

(a) investment expenditure was not necessarily geared to funds arising from internal sources;

(b) contrary to popular impression, there was not a restricted access in Great Britain to the capital market, and there were no inhibitions about using that market – indeed, the largest and

- fastest growers made the greatest use of the capital market;
- (c) the largest companies tended to grow most rapidly;
- (d) finance of expansion was as much involved with finance of trade credit as of other tangible assets:
- (e) bank credit was not of significance, again contrary to popular opinion.
- 45. In these comments upon the statistical aspects of financial reporting I would refer to the attempts: which have been made to compare international experience. The British figures have been ranged against those of the United States and Australia. For the period 1949-53 the following points have been made, and I quote them by way of example of the sort of deductions to be made in this field. In Australia large sums were raised both by share issues and from debentures; much less reliance was placed upon retained profits; and dividend policies were liberal. In the United States, while bond issues were of comparable importance to debenture issues in Britain, issues of shares were comparatively of less significance. Life assurance company purchases of securities were substantial in both countries. In the United States fixed asset investment was proportionately greater than in Great Britain, while investment in stocks (inventories) was of less importance. The trade credit pattern in Australia and in Great Britain was similar, but United States companies received more than they extended during the period.
- 46. The survey of company financial reports in general, both nationally and perhaps internationally, will probably enable and in fact has enabled (certainly in Great Britain) the bringing of guidance to Government, to representative industrial organizations, and to individual companies. In recent years the British Government has been concerned with dividend restraint, capital issues control and the supervision of the flow and availability of credit generally. The review of financial reports facilitate appraisal of the success or failure of these policie and indicates possible future action. The prope formulation of company policy, particularly or finance, can be helped by observation of the factor and conclusions reached both in financial report themselves and in special studies of them.

### VII. The Future

47. Throughout the foregoing paragraphs I hav attempted to reflect the viewpoint of a Britisl accountant on the importance and place of financi reporting in the world economy. Naturally, I have quoted widely from the background and development as it has occurred and is occurring in Great Britain You will be aware that much is proceeding at the present time, both towards the enactment of new legislation and for the adoption of the best extrastatutory practice. There have been many gaps in meaning the statutory practice.

commentary for the simple reason of lack of time. I hope, however, that I have touched adequately on a sufficient number of points to indicate to you the way our thoughts are going. I hope also that I have raised matters and raised them in a way that will provoke discussion.

48. We are living and I believe we are going to live in a world where the international boundaries that divide us are going to fade fast, certainly in terms of knowledge and standards of practice in our profession. Let me quote the example of Europe. There, the widening impact of the Common Market is sure to bring with it an exchange of technical skills and an uplifting of standards. On the training of the future accountant, my own Institute at the present time is in the midst of considering the improvements which are needed in education for membership. The

professional syllabus is bound to place stress upon the matter of financial reporting, in many respects the supreme outward example of the accountant's professional skill.

49. In considering the future of the world economy the conclusion emerges that there is a relative shortage of capital available for all the many tasks that demand to be performed. In such circumstances the concern that deserves support will aim to present through its financial report its image and activities and its claim to capital. Such a report will need to be up to date, responsible, enterprising, comprehensive, graphic and lucid, and in the words of the British Companies Act true and fair. In the electronic world of the future it could be, of course, that the circulated printed word may be supplemented or eventually replaced by a medium giving sound and even vision!

# Weekly Notes

### ACCOUNTANTS' REPORTS FOR PROSPECTUSES

AS noted in the report of the proceedings of the Council of The Institute of Chartered Accountants in England and Wales in our last issue, the London Stock Exchange has revised its memorandum regarding reports by accountants in respect of prospectuses, which was first issued in October 1954. The new memorandum is reproduced in full on other pages of this issue, and the principal alterations are referred to below:

Stock and work in progress (Paragraph 10 (i)): This paragraph refers to a new form of letter which will be required from accountants concerning the valuation placed on stock. The letter required is more explicit than that required under the previous memorandum. In future, stock must be stated to be valued in accordance with generally accepted accounting principles which have been applied consistently.

Equalization of Taxation (Paragraph 10 (iii)): The comparison between depreciation and capital allowances is now completely altered. Comparison is now to be on the basis of written-down value for tax purposes against the book values as shown in the balance sheet. The previous method has been to compare depreciation and capital allowances on an annual basis which has given rise to some confusion, since a number of variations of this method are possible.

Overseas Interests (Paragraph 12): This is a new requirement, following questions which the Share

and Loan Department has in fact been asking companies for some time.

Long-term Hire of Plant (Paragraph 13): In view of the possible growth of this type of activity, it has been thought desirable to draw accountants' attention to the point and in appropriate cases to ensure that adequate information is given to the public.

Net United Kingdom Rate of Taxation (Paragraph 14): This is now included for the first time as it is felt that it is information of interest to potential investors.

The memorandum has been redrafted and the layout simplified. It should, however, be noted that no change has been made to the layout of the statement of adjustments.

#### ENGINEERS AND THE NEXT BUDGET

THE season when advice is offered to the Chancellor of the Exchequer on his next Budget, like Christmas, seems to start earlier every year. A memorandum from the Engineering Industries Association, through its Financial Problems and Taxation Committee, this week advocates exemption from profits tax where the profit does not exceed £5,000, with an abatement of one-third of the difference between the profit and £20,000. It also advocates an upward revision of the maximum remuneration for controlling directors and a drop in the rates of tax (including income tax).

The memorandum also pleads for equality of treatment, in the matter of retirement benefit schemes for sole traders, partners and controlling directors, as compared with employees; and for capital allowances on commercial buildings. The Association considers that the duty on heavy oil should be repealed, and the rates of purchase tax

reduced.

### PUBLIC SERVANTS' PAY

IN its latest broadsheet, Political and Economic Planning have made a detailed study of the wage problems in the public sector which employs more than one-fifth of the civilian working population of Great Britain. The broadsheet brings out that the most persistent problem for the unions in this field has been the difficulty of maintaining income levels comparable to those in equivalent private employment, while for the Government the major problem has been to reconcile its role as an employer with its wider responsibilities not to allow wage increases for its own employees which might be detrimental to the nation's economy.

For the future, if the Government's incomes policy is to be developed, three questions will arise. The first is how the wages policy is to ensure that public servants do not suffer a pay disadvantage as was the case in previous wage control periods, e.g. 1948 to 1950 and 1957 to 1958. Although the Government has stated that the principle of fair comparisons has unfortunate economic consequences, so far as is known no practical alternative has been advanced.

The second question concerns the role of arbitration when a wages policy is operating and the third concerns the fixing of wages for public industries, such as the railways, which are showing a loss.

The broadsheet suggests that it might be worth while having a permanent body, possibly the new National Incomes Commission, to consider the answers to these problems.

### COMPENSATORY PUBLIC INVESTMENT

PUBLIC investment in Great Britain in 1963-64 is expected to total £2,060 million; the final figure may well be increased by some £70 million of additional investment in electricity at present contemplated. The importance of this factor in the national economy is indicated by the increase over the period 1955-56 to 1963-64 from £1,275 million to the forecast figure above.

Public investment is made up of two main groups of expenditure. Just under half is devoted in the coming year to the nationalized industries and the public corporations and of that total about 45 per cent or £438 million is allotted to the electricity boards. The British Transport Commission will receive £153 million and the Post Office £139 million. The other part, just over half the total, is allotted to public service investment such as roads £149 million, education building £198 million and housing – the largest item – which takes £348 million.

The most significant fact to emerge from the latest White Paper on Public Investment in Great Britain,

<sup>1</sup> Wage Policies in the Public Sector, Political and Economic Planning, London. Price 4s.

published last week<sup>1</sup> is the decision to expand the capital outlays in the public sector by about £130 million as compared with 1962-63. In the words of the report 'the Government have thought it appropriate to relax some of the more severe restraints imposed last year upon the growth of public investment'. This policy is in keeping with the principles laid down in the 1944 White Paper on Employment Policy (Cmd. 6527) which stated that fluctuations in the volume of private investment would be compensated by corresponding increases in the public sector.

The implementation of this policy is timely, but it is earnestly to be hoped that the localized pressure upon limited labour resources in the constructional trades which such plans can easily generate will not deter private investment, or if this takes place, force up costs unduly. Once a major scheme of public works is launched, it cannot be cut back or delayed without cost.

### A BANKER REFLECTS

N this year's Stamp Memorial Lecture, Lord ACobbold, until some eighteen months ago Governor of the Bank of England, explains his view of the Bank's role vis-à-vis the Government, the commercial banks, and the public.2 On the first he notes that the 'directions' clause of the Bank of England Act, 1946, which gives the Treasury power to compel the Bank to pursue a particular course of action, has the merit of at least making it quite clear where the ultimate responsibility for financial policy rests. On the second he is at pains to stress the importance of frequent and informal contact between the members of the money and capital markets on the one hand and the Governor on the other, thus implicitly acknowledging the value of Mr (later Lord) Norman's 'tea parties', as they were known. He has rather less to say on the Bank's public image, but recognizes the harm that was done in the past by the excessive and foolish secrecy which surrounded high finance.

One point of especial interest is his rejection of the proposal that there should be a frequent interchange of personnel between the Bank and Treasury. In his opinion such a policy would merely fuse their opinions, when what is needed from the Bank's staff in its dealings with the Treasury is an independence of view based upon a detached appraisal of the situation. Nevertheless, such exchanges of opinion, however they may conflict, are best kept private. Not for Lord Cobbold, is the violent, much publicized disputation between the Bank and the Government which arises from time to time in less urbane societies.

For the foreign student of British affairs in particular, Lord Cobbold's delightful talk will serve as a model of the British way of doing things at top level.

<sup>&</sup>lt;sup>1</sup>Cmnd 1849. H.M.S.O. Price 2s 3d net.

<sup>&</sup>lt;sup>2</sup> Some Thoughts on Central Banking. The Athlone Press, University of London. Price 3s 6d net.

### DOCUMENTARY EVIDENCE AT TAX APPEALS

THE vast majority of tax appeals to the Commissioners, General or Special, turn on questions of fact. Although section 59 of the Income Tax Act, 1952, gives power to the Appeal Commissioners to require the attendance of witnesses to give oral evidence, the Income Tax Acts nowhere confer power on the Commissioners to require any person to attend for the purpose of producing a document in his possession or power. The difficulty is got over in practice by the Commissioners obtaining from the Crown office a subpoena duces tecum which can be enforced by the Queen's Bench Division of the High Court. It has never been the practice to seek judicial leave for this, nor to specify the required documents

before the issue of the subpoena. It is considered sufficient if the documents are specified with reasonable distinctness after the issue of the subpoena.

This practice was attacked by a tax appellant, Mr Robert Frederick Soul, of High Street, Olney, Bucks, who brought an action for damages against the Revenue for wrongfully obtaining subpoenas out of the Crown Office without the leave of a Judge. He also complained of the omission to specify the documents, and argued that the subpoenas were invalid. The Revenue countered by successfully applying for Mr Soul's statement of claim to be struck out, as disclosing no cause of action. This week he appealed to the Court of Appeal against the striking out, but his appeal was dismissed.

### This is My Life ...

by An Industrious Accountant

CHAPTER 147

COMMUNICATIONS are notoriously a thorny problem in any accounting department. Personally, I always seem to be doing the wrong thing about them. When I first came to my present job, a chaotic lack of system was accepted cheerfully as normal, an attitude uncomplainingly derived from my predecessor's old-fashioned autocracy. I let it run for a time. My individual subordinates dropped into my room in a regular daily rotation; we talked things out and made joint decisions; they implemented them later in their own way.

That was all right in the old days when managers issued centurion-like edicts 'Go, and he goeth', and obedience was automatic. But nowadays we need cooperation and close-knit teamwork to ensure maximum efficiency. These subordinates in their turn were not always explaining our decisions down the line, I found. That time we changed the creditors' records, for example, when the departmental accountant initiated it without warning the staff, the junior section-head thought he'd be redundant and nearly had a breakdown. Or when the office manager peremptorily rotated the chief dictaphone typist with the shorthand supervisor, without the benefit of prior consultation, one had hysterics in the cloakroom and the other gave immediate notice. Hell hath no fury like a woman unwarned.

So I arranged weekly group meetings and at first they went fine. Communications improved vastly. We had the departmental accountant, temperamentally allergic to undue effort, the office manager, nervily nursing grievances about the ineptitude of the rising generation, and the costs man, bursting with constructive but ill-judged suggestions. The registrar and the internal auditor joined us also, of course; the latter usually had fascinating glimpses of

hitherto-unknown enormities in other departments.

Unfortunately, these meetings went on too long, as they inevitably tended to cover too much ground. After a while the members felt that A.'s problems were really of little concern to B., C.. and D., except in outline, and got bored. The cost accountant has thick glasses and I think he used to go quietly to sleep behind them on sunny afternoons. Also when the departmental accountant was on sick-leave, his assistant deputizing for him regularly stated in worried fashion that such-and-such was absolutely news to him, but absolutely, old man, thus branding his chief as being lamentably at fault in his communications.

So I tried holding sectional meetings at regular intervals. The attendance would include any of the particular section-heads mentioned above, and their two or three immediate subordinates, and we went into rather more detail. Results were very good at first. Then, somehow, the discussions tended to deteriorate. The trouble was that in cases of procedural disagreement loyalties were divided; when the section-head maintained a viewpoint his assistants were often reluctant to differ from him; they took a passive and slightly suspicious role. They were careful of their words, backward in coming forward. I knew why of course. In one case at least, that of the cost accountant, he's a petty tyrant in his own field. He allows little or no criticism from his staff and it could fare ill with the one who failed to keep a united front before the natural enemy. Meaning me, naturally.

The office manager, on the contrary, irks his team by his niggling and tends to get involved in bitter repetitive exchanges which never seem to get anywhere. His shorthand supervisor, I suspect, is a throwback to Dracula; she takes pleasure in backbiting people.

So recently I haven't been holding any meetings at all. Theoretically a poor procedure, so far it's working rather well. Except that the office manager tells me that communications are terrible in our department, and that all the chaps want meetings again.

# Finance and Commerce

### Qualcast

THIS week's reprint is from the accounts of Qualcast Ltd, a name so well known as the biggest lawn mower manufacturer in the world that it is not generally realized that it is also the leading name in the United Kingdom for repetition light castings. Light castings, in fact, is the more important side of the business, which goes back to the ironfoundry producing stoves and grates established by the great-grandfather of Mr Vincent Jobson, the chairman, in Sheffield in 1801 and moved to Derby, the Qualcast headquarters, in 1849.

Mr Jobson's aphorisms at the foot of each page of his annual report and accounts have so often enlivened this column with humour and common sense that it is a fitting tribute, as he approaches his 76th birthday, to reprint the accounts – and the little

proverbs.

The Suffolk Iron Foundry (1920) Ltd and its 'Punch' mowers was brought into the group in 1960. In the year under review, the capital of Charles H. Pugh Ltd, of Birmingham, was acquired from August 1st, 1961, for 1,100,000 Qualcast shares; its accounting date was changed to June 30th and figures for eleven months have been included in these accounts.

### Optimist

Despite the opportunity available to him, Mr Jobson, as a boy, was something of a 'misfit' and went off ploughing his own furrow: grocers' assistant, working photographer and travel – in the West Indies, United States and Canada. But by 1912 he was back in Derby, and about 1920 was linking his future with the motor manufacturers with castings for cars.

Mr Jobson is a confirmed optimist – as his remarks on page 9 of his report clearly indicate: 'Definitely, I am not a pessimist, I can see no reason to be. We have just brought into production a new semi-automated foundry, with a potential of 10,000 tons a year, and we anticipate filling it. The trend, a happy one for the future of the country, is towards increased leisure time, and catering for this trend should provide a profitable avenue for expansion of business.'

How the business has expanded in the last decade

is shown in a comparative table of capital and profits. Total capital employed has risen from £1,851,999 to £8,981,146, assisted on July 1st, 1960, by a fixed asset revaluation giving rise to a surplus over book value of £2,226,373 which was placed to capital reserve. From 1949 to 1961, seven scrip issues increased a holding of one hundred shares to 1,143.

### **Poll Point**

RECENT events in the company world have provided accountants with a wealth of practical experience. Francis Sumner (Holdings) was forced into taking a poll vote on the composition of the board and the acceptance of a new firm of auditors. To the company it was a matter of great consequence because the board had only been in its present form since about last February, after some years of strife and unsettlement.

At the meeting on October 19th, the voting position was that the board had the support of approximately 800,000 votes and the opposition of about 1.6 million votes, leaving about 2\frac{3}{4} million votes uncommitted. The opposition obtained proxy support without disclosing that the aim would be to oust the board, the nominations of the proposed directors being deposited at the company's office at the last moment before the meeting.

Mr C. C. Miller, F.C.A., the chairman, maintained that the position should be set before all the share-holders, not least those who had not committed themselves, and fixed November 13th as the date for the poll, which had to be taken within twenty-eight days from the meeting at which it was demanded.

### Instruction

The first obvious point was that those shareholders who had already given proxies could not, in effect, undo them. The only way open to them, if they wanted to make certain their views were expressed through the ballot box, was to attend personally at the poll, a practical impossibility for many people with busy lives to lead at a distance from the scene.

Members were informed, however, with the notice of the poll, that it was still open to them to write to their proxy holders instructing them as to how they desired their votes to be exercised, or even to instruct

them not to vote at all.

Then came Sir Sydney Littlewood, a shareholder and a Past President of The Law Society, in support of the board. He reminded members that though they may have given their proxies to the opposition before they knew that it planned a board upheaval, they could not legally revoke. Nevertheless, he wrote, they could still authorize him to instruct Mr B. J. Brady, the opposition leader, that their proxies should be used in favour of the board and against Mr Brady's nominees.

105,395,301

£11,254,668

# QUALCAST LIMITED AND SUBSIDIARY COMPANIES Consolidated Balance Sheet at 30th june 1962

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		¥		25		7	492,256	24,313	2,226,373		.960,625	321,966	7	-					,218,410	532,629	192,859	85,874	
ĺ		-	6	fully								•	ı	•	•.	18/9			-	•	AST .	•	
		-	ISSUED SHARE CAPITAL OF QUALCAST LIMITED	75,000 7% Cumulative Preference Shares of £1 each, fully	II,449,868 Ordinary Shares of 5/- each, fully paid	CAPITAL RESERVES	SHARE PREMIUM ACCOUNT. (See Note (3))	GENERAL, (See Note (4))	SURPLUS ON REVALUATION OF FIXED ASSETS		GENERAL RESERVE	PROFIT AND LOSS ACCOUNT	,	FUTURE INCOME TAX	TOTAL CAPITAL EMPLOYED	5½% FIRST MORTGAGE DEBENTURE STOCK 1976/81	SUBSIDIARY COMPANY (see Note (5))	CURRENT LIABILITIES	SUNDRY CREDITORS AND ACCRUED CHARGES	CURRENT TAXATION	PROPOSED FINAL ORDINARY DIVIDEND OF QUALCAST LIMITED, LESS TAX.	PROPOSED DISTRIBUTION OF CAPITAL PROFIT	

THE

It is more important to the nation to redistribute opportunity than wealth.

Keep all plans simple—complications mean that there is more to go wrong.

105,395,301

£11,254,668

Consolidated Profit and Loss Appropriation Account Year Ended 30th June 1962

The greatest power the world has ever known is good will.

If you can't find a way, make one.

# QUALCAST LIMITED AND SUBSIDIARY COMPANIES

· Consolidated Profit and Loss Account Year Ended 30th June 1962

								$\boldsymbol{\Lambda}$			A T	CYTA	1.					I	ovembe	r 24tn, .
1961	¥ij	916'029		1	916'029			268,735	389,481	1,060,397			3,216	110,938	174,330	771,913	426,088			£345,825
,		712,765		17,821	694,944	•			345,825	1,040,769					318.803	721,966	400,000			6321,966
,	,							225,079	120,746				3,216	122,728	192,859				201,220	
•	BAI ANCE transferred from Concolidated Broft and I ore	Account	Deduct:	Adjustments, including Taxation, relating to previous years		Add:	Balance brought forward from 30th June, 1961:-	Qualcast Ltd	Subsidiaries		DIVIDENDS for the year to 30th June, 1962, less Tax:-	Preference Dividend paid 31st December, 1961, and 30th	June, 1962	Interim Ordinary Dividend of 7% paid 30th April, 1962	Proposed Final Ordinary Dividend of 11% payable 31st October, 1962		TRANSFER TO GENERAL RESERVE-Qualcast Ltd.	BALANCE CARRIED FORWARD	Qualcast Ltd	
1961	- ¥1		1,803,883		249,368	26,226	5,128	6,695	 	287,417				3,281	101,361		1,411,824		554,507	740,908
	, Ч		2,017,937		303,812	51,110	6,760	5,289	12,848	379,819				4,155	103,704		1,534,414		588,134 233,515	821,649
	<b>'41</b>	GROUP TRADING PROFIT (including Interest Received less Paid £57,556 (£36,045)) after charging General Trading	Expenses, but before taking into account the items set out below	-	Depreciation of Fixed Assets 303,	Contributions to Employees' Life Assurance, Pension and Retirement Benefit Schemes 51,	Auditors' Remuneration and Expenses 6,	Past Directors' Pensions 5,	Debenture Interest— Subsidiary Company. (See Note (5)) 12,			<ul> <li>Deduct: Remineration of the Directors of Qualcast Ltd in</li> </ul>		Fees	•		PROFIT FOR THE YEAR BEFORE PROVIDING FOR TAXATION		TAXATION based on the Profit of the Year:  Income Tax	PROFIT AFTER PROVIDING FOR TAXATION

### QUALCAST LIMITED AND SUBSIDIARY COMPANIES

### Notes on Accounts - Year Ended 30th June, 1962

- Outstanding commitments for Capital Expenditure are estimated at £58,792, including £7,500 relating to Qualcast Limited.
- (2) Taxation has been provided for on all Profits earned to 30th June, 1962.
- (3) Premium arising on Shares issued on acquisition of Charles H. Pugh Ltd.
- (4) General Capital Reserve:-

			Qualcast Group	Qualcast Limited
			£	. €
Balance at 30th June, 1961	••	••	106,313	95,016
Add: Foreign Compensation	receive	d by		
Subsidiary			3,874	
			110,187	95,016
Less: Proposed Distribution			85,874	85,874
Balance at 30th June, 1962	••		24,313	9,142

(5) The Debenture Stock in Charles H. Pugh Ltd. has been redeemed since 30th June, 1962.

Before you take a problem to your Boss, try not to.

### QUALCAST LIMITED

### Auditors' Report

### TO THE MEMBERS OF QUALCAST LIMITED

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company so far as appears from our examination of those books. We have examined the annexed Balance Sheet which is in agreement with the books of account. In our opinion and to the best of our information and according to the explanations given us, the said Balance Sheet gives the information required by the Companies Act, 1948, in the manner so required and gives a true and fair view of the state of the Company's affairs as at 30th June, 1962.

We have also examined the annexed Consolidated Balance Sheet and Consolidated Profit and Loss Account of the Company and its Subsidiaries with the audited Accounts of those Companies, certain of which have not been audited by us. In our opinion such Consolidated Balance Sheet and Consolidated Profit and Loss Account have been properly prepared in accordance with the provisions of the Companies Act, 1948, so as to give a true and fair view respectively of the state of affairs and of the profit of Qualcast Limited and its Subsidiaries.

"PROBATE HOUSE," 37-38 ST, MARY'S GATE, DERBY.

20th September, 1962.

6 months

R. J. WESTON & Co. Chartered Accountants, Auditors.

A good Salesman is the man who can convince his wife she looks fat in a fur coat.

### CITY NOTES

NCE again international political developments have intervened in the stock-markets. A rally in the equity markets based on hopes that Government re-expansion moves will do the economic trick, has fallen foul of the developments in the Indian border war.

It may be as well that the rally has been subjected quickly to such a test. The impression was developing that an equity boom was round the corner. Even accepting the best results from a reduction in purchase tax on cars and from more generous investment allowances and even anticipating fresh Government measures, there was little firm basis for maintenance of the pace of the equity advance.

In the gilt-edged market there is now an interesting exercise in tactics. The official moves to force down long-term interest rates stopped at the time of the Cuba crisis and, although the market subsequently recovered to some extent, there has been no sign of any return of official prompting in the long-term end of the market.

Undated stocks are now some three points below heir pre-Cuba peaks, but successive days of marking down of prices have so far not encouraged any return of official support nor any indication of official policy.

The Building Societies' Association, meanwhile, is obviously still undecided about the true interest rate rend and has still refrained from recommending ower interest rates. The Association's decision might be unpopular but it is understandable and, in the ircumstances, correct.

### RATES AND PRICES

Closing prices, Wednesday, November 21st, 1962

Tax Reserve Certificates: (interest rate) 25.8.62 2½% Bank Rate

Oct. 27, 1960 Dec. 8, 1960 July 26, 1961 Oct. 5, 1961			5½% 5% 7% 6½%	Nov. 2, 1 Mar. 8, 1 Mar. 22, April 26,	6% 5½% 5% 4½%			
Treasury Bills								
Sept. 14	£.3	135	11.97d%	Oct. 19	£3	145	8.22d%	
Sept. 21	£.3	145	0.01 d%	Oct. 26	£3	175	2.03d%	
Sept. 28	£3	125	8·42d%	Nov. 2	£3	165	11.48d%	
Oct. 5	£.3	125	4·13d%	Nov. 9	£3	175	1·60d%	
Oct. 12	£3	125	3.07d%	Nov. 16	£3	155	11.09 <i>d</i> %	

### 

Foreign Exchanges							
New York	2.80 7	Frankfurt	11.234				
Montreal	3.02	Milan	1740 18				
Amsterdam	10.00	Oslo	20.014				
Brussels	139·36 <del>1</del>	Paris	13.73 k				
Copenhagen	19·38½	Zürich	12.09				

Gilt-edged								
Consols 4%	671	Funding 3% 59-69	897					
Consols 2½%	43½	Savings 3% 60-70	871					
Convision 51% 1974	100	Savings 3% 65-75	814					
Conversion 5% 1971		Savings 2½% 64–67	908					
Conversion 3½% 1969	911/2	Treas'ry 51 % 2008-12	96					
Conversion 21%	50 <del>1</del>	Treasury 5% 86-80	OT Å					

Conversion 3½% 59½ Treasury 5% 86–89 91½ Exchequer 5½% 1966 102½ Treasury 3½% 77–80 78½ Funding 5½% 82–84 101½ Treasury 3½% 79–81 79½ Funding 3½% 99–04 67½ Victory 4% 97½ Funding 3% 66–68 91½ War Loan 3½% 59½

### Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

### Changes in the Purchasing Power of Money

SIR, – In his most interesting paper on 'Changes in the purchasing power of money' (*The Accountant*, November 3rd and 10th) Mr W. E. Parker argues that all goods and other assets held by a firm should be revalued to take account of changes in the purchasing power of money. I find myself only partly in agreement with him. In particular, I question the validity of his conclusion at the end of paragraph 18, which reads:

If therefore it proved expedient for savings bonds to be held by a going concern as a means of maintaining its undertaking [by which I understand making provision for amortization and the replacement of assets], I should say that without question the accounts presented to the stockholders ought to incorporate the effect on the equity capital of changes in the purchasing power of the bonds so held.

Suppose a firm purchases a machine for £1,000 with an estimated net replacement cost at life expiry in 1972 of £2,000. And suppose the firm, in order to provide for its renewal, purchases in each year of the machine's life, bonds maturing in 1972 with a total redemption value of £2,000. If this proved sufficient to cover the cost of renewal, would not the revaluation of the bonds by reference to, say, a fall in the purchasing power of money prior to redemption amount to double counting? Similarly, bonds accumulated in order to amortize a loan would not need revaluing, since changes in the purchasing power of money are not going to effect the size of the loan or the interest charges on it. Nor, to return to the machine example, would there be a case for the revaluation of the bonds, even if the amount provided at life expiry fell short of the net replacement cost, since the whole of the proceeds on redemption would become available as a contribution to the cost of renewal.

There may be a case for revaluation where the bonds are accumulated by way of pure amortization other than of a loan or other debt owing to an extraneous organization, provided there is no intention to renew a tangible fixed asset or a leasehold; but even then, I suggest it is a pretty slim one.

Yours faithfully,

Bushey Heath, Herts. E. J. BROSTER.

SIR, – Those who are concerned with this very important problem, and who have studied Mr W. E. Parker's paper in your issues of November 3rd and 10th, may be interested in a seminar on replacement value accounting to be held at The Polytechnic, Department of Management Studies, during the week beginning January 21st, 1963.

The seminar will be led by Professor Abram Mey, who retired last year from the Chair of Managerial

Economics at Amsterdam University.

Professor Mey, who is a member of the Nederlands Instituut van Accountants, was previously Director of the State Budget in Holland, and was responsible for preparing the first State balance sheet for that country after the last war. He has been working on the problems of price level changes since the early thirties, and is well known for his lectures and articles on the subject.

Yours faithfully, KENNETH S. MOST, LL.M., F.C.A.

The Polytechnic, Department of Management Studies, London W1.

### Opportunism and the Accountant

Sir, – The article entitled 'Opportunism and the accountant', by Mr A. H. Taylor, M.C., A.A.C.C.A., in your issue of October 27th, contains a great many statements which are, not to put too fine a point on

it, highly questionable.

The general theme, however, appears to be that budgeting and management accounting generally have replaced 'opportunism' in business. Surely it is realized, if not from experience, at least from the multitude of textbooks, lectures, pamphlets and courses on the subject, that the main and overriding purpose of budgeting is to spotlight the need for swift management action, or 'opportunism' as it is here called. The early results of budgeting and management accounting in countless installations have been to reveal the vulnerability of businesses and to alert managements to the need for constant 'opportunism' and forward planning.

Mr Taylor calls for a 'new race of accountants', one of whose duties will be, it is stated, 'to predict the future'. One can appreciate how valuable such persons would be (and not only in the financial field). I would suggest, however, that the present race of accountants are quite adequate, provided they know their

subjects.

Yours faithfully, T. K. MULLIN, F.C.A., A.M.B.I.M.

Cheam, Surrey.

[Mr A. H. Taylor writes: Your correspondent's interesting letter is as provocative as my article was intended to be. I agree that budgeting should 'spotlight the need for swift management action' but a budget variance will only indicate the extent to which

the original intention has or has not been achieved. A budget, unless immediately revised, will not reflect new opportunities for making profit which may arise from day to day. That is the kind of opportunism which demands a new emphasis in the service accountants offer industry.]

### Decimalizing the Currency

Sir, - To the many words that have been written on this subject, may I add a few in favour of a composite scheme, namely:

One major unit (the 'fiver') = one hundred shillings. One shilling = twelve pence.

There are a few points arising from most of the schemes proposed and introduced so far:

- (a) Why must we abandon our unique ability to divide amounts by twelve?
- (b) Why is it generally assumed that the minor unit should not itself be divided into halves, thirds, quarters or twelfths? Otherwise, should inflation overtake the 1-unit coin, it means that a 21unit coin would bear a more convenient relationship to the 10-unit coin than a 2-unit coin, but that would involve introducing a coin of two significant figures.
- (c) Why should we be restricted to a one-pause system? Mr T. H. Husband has very effectively shown the advantages of a two-pause system in your issue of May 26th, 1962.
- (d) Also, in the now popular 10s/cent scheme, the similarity between a cent and a penny is too great and would probably cause more confusion than the appreciable difference between the penny and the 2.4d cent of the £1 scheme.

In addition to overcoming these objections, the fiver-shilling-pence' scheme has the following main advantages:

- (a) It retains the very valuable ability to divide accurately amounts by threes and twelves, and to obtain the exact price in pence of articles priced in shillings by the dozen.
- (b) If £5 is divided into 1,200 it has 28 whole number factors, while divided into 1,000 it only has 14 such factors.
- (c) No difficulties exist for transactions and prices involving shillings and pence only, hence noinflation due to adjustment of exact amounts.
- (d) The conversion of amounts over £1 is fairly simple, unlike the factors of 12 and 24 which appear somewhere in any other scheme. Also in practice, amounts up to about £5 are often quoted in shillings at present.
- (e) Far fewer problems arise under this scheme than under any other from the inevitable use of old currency for basic prices and a final conversion into new currency. In India, food prices are still quoted in annas and only the eventual total in

rupees and annas converted into rupees and naye paisa at 6½ n.p. to the anna (approximately!).

(f) Two of the three present units are retained, which no other scheme does, while the 10s/cent scheme abandons all three.

- (g) No coins need be changed, apart from withdrawing the half-crown, because it has two significant figures, and possibly introducing a 5s coin of a different colour or shape from the silver range and much lighter than the present (rare) crown, to bridge the gap and give a 1, 2, 5 sequence. There is no half-crown in Australia. The changeover in notes is of name of  $f_{ij}$  and  $f_{ij}$ only, and notes have a much shorter life than coins anyway.
- (h) Coin-using machines will not be affected.
- (i) Little advance notice is needed.
- (j) The larger major unit means a reduction in the number of figures in statistics and published accounts.
- (k) The major unit is restored to about the 1914 value of the pound. A reduction in the value of the major unit is undesirable as it emphasizes the effects of inflation and could even solve all decimalization problems as in France.

The disadvantages compared with other schemes are relatively insignificant:

- (a) The change in major unit means that for comparative purposes, statistical records will need conversion.
- (b) The £5 will be larger than any other major unit, but then so is the £1 and 10s. If it is necessary to have a comparable unit, then the shilling is in the same order as most European currencies and amounts under a shilling are hardly likely to worry trade on an international level.
- (c) Accounting machines can only be used for amounts of fivers and shillings, using the machine in round pounds temporarily. Amounts including pence can however be recorded by using f, s d equivalents prior to conversion.

Yours faithfully,

Sydney, Australia.

P. D. LONG.

### Thistles in the Barley

Sir, - Readers may be amused by the following copy of a letter we received recently from a client in connection with queries left with him:

'Dear sir,

On going over my papers again and thinking back, it was put in Barley but came up so full of Thistles it was cut and the best of it we fed to the hens, the other we burned.

> Yours truly,' Yours faithfully, THORNTON BAKER & CO.

Bedford.

### Accountants' Reports for Prospectuses

A memorandum from the Stock Exchange, London, regarding reports by accountants with respect to profits, assets and liabilities for purposes of prospectuses, offers for sale, advertised statements and circulars

### Requirements

- 1. Appendix 34 to the Rules of The Stock Exchange, London, requires *inter alia* (serial 36) that all prospectuses (the document) should include a report by qualified accountants (the accountants) on the company with respect to:
  - (a) its profits or losses in respect of each of the ten completed financial years immediately preceding the issue of the document, or if it has been incorporated less than ten years in respect of each of the years since its incorporation;

(b) its assets and liabilities;

- (c) the aggregate emoluments of its directors during the last year and a comparison with the amount payable under the arrangements in force at the date of the document; and
- (d) such other matters which appear to the accountants to be relevant. 'Prospectus' is defined in Introductory Note (i) to Appendix 34 and includes circulars required under serial 119 relating to material acquisitions by a company.
- 2. A similar report has to be furnished (serials 37 and 56) with respect to the profits, assets and liabilities, etc. (but not directors' emoluments), of a business being acquired or of a company being acquired which will then become a subsidiary and no part of whose securities are already quoted. If the business or new subsidiary has not been in existence for ten years the period is restricted accordingly.
- 3. In the case of groups of companies, the requirements envisage a statement of the company's net assets and a statement usually in consolidated form, of profits and losses and assets and liabilities of the group.

### **Computation of Profits**

4. Neither Appendix 34 nor the Companies Act, 1948 (the Act), lays down the basis on which profits or losses are to to computed. It is the practice, however, for the accountants to indicate in the report the basis which has been adopted. This normally states that the profits or losses have been arrived at after charging all expenses, after dealing with such items as depreciation, amortization, directors' remuneration, interest, etc., on defined bases, and after making such adjustments as are appropriate.

### Statement of Adjustments

5. Provision is also made in Appendix 34 (serials 47 and 65) for a written statement (the statement of adjustments) signed by the accountants setting out the adjustments made by them in arriving at the figures shown in their report and giving the reasons therefor, to be available for inspection by the public.

### Method of Setting Out the Statement of Adjustments

6. In order that the Share and Loan Department of the Stock Exchange (the Department) can obtain what is required in sufficient detail and on a reasonably uniform basis, the statement of adjustments as regards profits and losses should be divided into two sections as follows:

### SECTION 'A'

This section should begin with the net increase or decrease in the balance at credit or debit of profit and loss account shown by comparison of the balance sheets at the beginning and end of each of the financial periods under review; the net increase or decrease in the balance on profit and loss account for each of the last two years should normally be capable of ascertainment from the accounts which are required to be made available for inspection under serials 47 and 65 of Appendix 34. There should then be shown and added to or deducted from this amount:

- (i) the items which are required by the Act to be stated separately in the profit and loss account, notes being included to disclose any further information required by the Act to be disclosed by way of note to the profit and loss account;
- (ii) interest charges, analysed under appropriate headings, in addition to those payable on debentures and other fixed loans (which are covered by item (i) above);
- (iii) material revenue items which have been dealt with otherwise than through the profit and loss accounts.

The sum finally arrived at in this section would normally be the profit or loss for the year before taking account of interest and of items which the Act requires in any event to be stated separately.

### SECTION 'B'

This section should commence with the final figure of profit or loss shown in Section 'A' and should show in detail the adjustments made thereto in arriving at the profits or losses shown in the accountants' report and giving the reasons therefor.

7. As regards assets and liabilities, if the final total amount of the net assets in the report differs from the total amount of net assets dealt with in the latest audited balance sheet, and the relevant adjustments are not set out in the report, a statement should be submitted showing the adjustments made and reconciling these totals.

### Statements of Adjustments of Holding Companies

8. If the company is a holding company, the statements of adjustments may deal with the consolidated figures of the company and of its subsidiaries or with the figures of the separate companies or groups of companies comprising the holding company and its subsidiaries. In the latter case, a summary combining the figures so as to arrive at those shown in the accountants' report should be submitted.

### Submission of Statement of Adjustments to the Department

9. The statement of adjustments, a draft of which must be submitted at least ten days prior to the date on which it is proposed to publish the document, should be accompanied by a letter from the accountants to the Department which should confirm that all adjustments which are appropriate for the purposes of the report have been made to the profits and losses (in respect of each year under review) and to the net assets and that no other adjustments have been made.

### Letter to be Submitted to the Department Concerning Certain Accounting Matters

10. There should be submitted to the Department by the accountants a letter confirming the following three matters:

### (i) Stocks and Work in Progress

That, save as indicated in their report, they have obtained sufficient information about the stock-takings and have examined sufficient records and other evidence to enable them to form the opinion that throughout the period under review stocks and work in progress were properly ascertained and, in arriving at the reported profits and losses, were brought into account on bases in accordance with generally accepted accounting principles which were applied consistently.

### (ii) Depreciation and Amortization

That they have satisfied themselves that the provisions for depreciation and amortization charged in arriving at the reported profits and losses, considered in conjunction with any qualifications or notes included in their report are in their opinion reasonable having regard, *inter alia*, to:

- (a) assets in respect of which it has been or will be the company's practice to make no provisions for depreciation or amortization (which policy would require to be referred to in their report) and
- (b) any revaluation of fixed assets either already incorporated into the company's accounts or to be incorporated therein.

### (iii) Equalization of Taxation

That the net book value of the fixed assets appearing in the report in respect of which depreciation and/or amortization will require to be provided out of future profits does not exceed by a material amount the corresponding amounts on which capital allowances will be obtained for taxation purposes, or, in the event of there being a material difference, how this has been taken into account, unless it is apparent from the document (e.g. by setting up a tax equalization account which is deducted in arriving at the net assets or by including a suitable explanation in the accountants' report or elsewhere in the prospectus and making an appropriate adjustment for the non-allowable proportion of depreciation in computing the tax payable on the profit figures included in any forecast future profits).

### Period Covered by the Report

11. Although the report is required to deal with the he profits or losses of each of the preceding een

financial years, application may be made to cover a shorter period where it is considered that inclusion of the earlier years may be irrelevant or misleading.

### **Overseas Interests**

12. Where a material proportion of the profits arises overseas or a material proportion of the assets are situated overseas, the report or the document should give the best practicable indication of the amount and situation or source of such assets and profits. In the case of businesses with overseas interests, the basis on which overseas currencies and overseas taxation have been dealt with should, if the accounting treatment of these matters is material, be set out in the report.

The Department would also normally require the document to contain an adequate explanation with regard to any restrictions affecting the remittance of profits or repatriation of capital from the countries concerned

### Long-term Hire of Plant

13. Where contracts exist for the hire of plant to the company for a period of over one year which are substantial in relation to the company's business, details should be supplied to the Department, who may require details to be disclosed in the document.

### Net U.K. Rate of Taxation

14. If the net U.K. rate of taxation applicable to dividends payable by the company would be materially lower than the standard rate, an estimate of the anticipated net U.K. rate applicable to the dividend forecast should be included in the document.

### **Directors' Emoluments**

15. Appendix 34 requires the accountants to deal in their report with the aggregate emoluments of the directors of the company for whose securities a quotation is sought. The exact comparison to be given must depend on the circumstances of each case and the comparison should normally deal with the emoluments of any person who is a director at the time of the report. The emoluments for this purpose should follow the definition contained in Section 196 of the Act.

### **Additional Information**

- 16. For certain types of company the Department may require information to be given in the document additional to that which is normally provided. Examples would be:
  - (a) Building, contracting and similar companies engaged in carrying out contracts of a long-term nature, where these form a substantial proportion of the business. In such cases the method of taking credit for profits and of arriving at the amounts at which stocks and work in progress were brought into account should be defined in the document.

In such cases the Department would require the letter from the accountants to state also that in their opinion the methods used are in accordance with generally accepted accounting principles which have been consistently applied.

(b) Hire-purchase finance companies where the

methods of valuing debts and taking credit for profits should be defined in the document. In such cases the department would require the letter from the accountants also to confirm that the valuation of hire-purchase debts and the method of taking credit for profits have been on bases which in their opinion are in accordance with generally accepted accounting principles which have been consistently applied.

### General

It is emphasized that neither Appendix 34 nor this memorandum are exhaustive and that further information may be required, or the required information varied by the Department where it is deemed to be relevant. In cases of doubt the accountants should consult the Department through the company's brokers, in consultation with the Issuing House, where one is concerned.

### Swedish Accountants' Fiftieth Anniversary

The fiftieth anniversary meeting of the Föreningen Auktoriserade Revisorer (Swedish Institute of Authorized Accountants), was held in Stockholm last week. Official guests from the United Kingdom were Mr James C. Stewart, c.a., President of The Institute of Chartered Accountants of Scotland, and Mr E. H. V. McDougall, Secretary of the Scottish Institute; Mr Percy F. Carpenter, F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Mr C. A. Evan-Jones, M.B.E., Joint Secretary of the Institute. Representatives from Germany, Belgium, Denmark, Holland, Norway and Finland were also present.

Professor O. Sillén, one of the six founder members of the Swedish Institute, and now the doyen of the Swedish profession, attended the meeting. Professor Sillén was one of the Swedish Institute's three representatives at the 1933 International Congress on Accounting held in London, when the membership of the Institute numbered seventy public accountants; the present total is still no more than 300.

### Sweden's Industrial Growth

The principal address was given by Dr Marcus Wallenberg, a leading Swedish industrialist, on the subject 'Swedish industry – past achievements and future progress'. Dr Wallenberg stated that only Japan and the United States had a more rapid economic expansion in the years 1862 to 1912 than Sweden, although in that half century more than eight hundred thousand Swedes had emigrated. But it was between 1912 and 1962 that Sweden first became one of the most highly developed economies in the world.

Sweden's economic progress was for the most part founded on the expansion of manufacturing industry. In the past fifty years, industrial production had risen by an average of 4 per cent a year, but the figures for the trend of total industrial production concealed a continuing structural change. Any one branch of industry experiences ups and downs in a period as long as fifty years, Dr Wallenberg stated, but the branches which had expanded strongly during the whole of the period were iron, steel and metal manufacturing, pulp and paper, and the electricity supply industry. For the textile and ready-made clothing manufacturers there had been periods of recession, and the sawmills and the shoe and leather industries could be said to have relatively stagnated.

Dr Wallenberg touched on the factors of production. In the past ten years the increase in employment had been almost entirely confined to the 'white-collar' section, whereas the number of manual workers had been pretty well unchanged even though the working

week had been shortened. The contribution of fixed capital – machinery, buildings, etc. – had thus increased more rapidly than that of labour. In this context the key words were: standardization, specialization, work and method study, product development and location of industry.

Dr Wallenberg went on to talk of the dynamic elements in business activity—invention and technology were basic factors in economic development, he said, but enterprise had also a strategically decisive place in the process. Decisions about when and how to invest, when to abandon or change a line of manufacture, when to cultivate a market had to be taken by the entrepreneur. The presupposition of creative business enterprise was the availability of risk capital. There had been many improvements in Sweden in the sphere of money policy, but, largely as a consequence of tax policy, the supply of new, risk capital remained restricted. This limited the creative enterprise which was essential in a dynamic economy.

Looking into the sixties, Dr Wallenberg expressed the view that companies would sell more energetically, especially in export markets, and that modern data processing methods would be more commonly introduced. He was convinced that it was possible to avoid a serious depression during the sixties, if the finance ministers and central bankers in the Western countries could collaborate effectively.

### Aid for Under-developed Countries

In conclusion, Dr Wallenberg spoke about the industrialization of the under-developed countries. Their industrialization could cause these countries to require greater quantities of capital goods from the industrial nations of the West, the economies of which could be stimulated in this way. If the under-developed countries progressed in a way which provided them with greater internal resources, their present needs, with their vast populations and their great and unmeasured needs, could give a powerful boost to the economies of the West.

'I believe', said Dr Wallenberg, 'that if such a development were to take place, Swedish industry would be in a condition to use the opportunities for rapid growth which would be created. We have a very rich supply of "know-how" for the production of capital goods, and often for those goods which are in particularly keen demand when an economy has to be built up from the start. For this reason it is of especial interest to the Swedish economy that ever-increasing contributions should be made to build up the under-developed countries.'

### THE UNIVERSITIES AND THE PROFESSION

### Manchester Chartered Accountants' Dinner

Over four hundred members and guests attended the annual dinner of the Manchester Society of Chartered Accountants held at the Midland Hotel, Manchester, on November 15th. Mr G. W. Murphy, J.P., B.A. (COM.), F.C.A., President of the Society, was in the chair and together with Mr P. F. Carpenter, F.C.A., President of The Institute of Chartered Accountants in England and Wales, received the company.

The toast of 'The City and University of Manchester' was proposed by Mr Murphy who said they were all keenly aware that in the many fields of social and scientific endeavour great advances had been made by the university and the corporation. It was his privilege to express appreciation for the special services in education given by the university and Manchester Education Committee.

'We need educated young people to staff our profession and supply it with new members. We must have a continual flow of university-trained men to uphold our standards of performance.'

Young people joining the profession from the universities, he went on, had made brilliant advances. They were today occupying positions of the highest responsibility which included educational, professional and commercial appointments.

'We have had students from many parts of the United Kingdom, the Commonwealth and foreign countries in my university department. They have later been trained by Manchester practitioners, and their subsequent careers have been as distinguished as was their university progress.'

### Mr Murphy continued:

'For fifteen years I have debated, discussed and disputed with my professional colleagues and the subject of this dispute has always been the same. It is the study and teaching of accounting in English and Welsh universities. It is now an accepted discipline in every university in the United Kingdom. I beg your pardon, there are still those ancient citadels on Isis and Cam. Though the wind of rumour gives gentle murmurs that even those old bastions are beginning to crumble'.

### Management Skill

It was not the first time Manchester had been in the vanguard. As chartered accountants they claimed a knowledge of management accounting. This, naturally, included budgetary skills, cost control techniques and management ratios.

It was difficult to allocate scarce means among competing ends, especially when the objective of allocation was to maximize the attainments of those ends. It must be perplexing to try to reconcile the general policies which the university and the corporation wished to pursue with the financial resources available, and their efforts and management skill during a period of disturbingly unpredictable political and reconomic activity were sincerely admired.

Responding to the toast on behalf of the city, the Lord Mayor, Alderman R. E. Thomas, J.P., said there was no greater measure of harmony anywhere else in

the country than between civic authorities, the university, commerce and the professions in the city of Manchester. Today, they were living in exciting times. One could see the old disappearing and the new appearing. There was a wonderful development in the educational field.

In his response on behalf of the university, Professor W. Mansfield Cooper, LL.M., Vice-Chancellor of the University of Manchester, said the university was part of the city and was proud to be. The phrase 'town and gown' had never had any significance in Manchester.

### **Greater Co-operation**

Proposing the toast of "The Institute of Chartered Accountants in England and Wales", Dr J. M. Whittaker, M.A., D.SC., F.R.S., Vice-Chancellor of Sheffield University and President of the Joint Standing Committee of the universities and the accountancy profession, said there should be greater co-operation between chartered accountants and the universities. It was important to get people in the profession with the highest state of education and for them to bring that education to bear on their problems.

Responding to the toast, Mr P. F. Carpenter, F.C.A., President of The Institute of Chartered Accountants in England and Wales, said they had listened to Dr Whittaker with interest and no doubt in the next ten years many of his words would come true.

The President recalled that Manchester was one of the oldest of the Institute's district societies. He was rather impressed with Manchester's response to the invitation to help overseas boys to come to this country and be trained by members of the Institute.

Mr Carpenter said he had been privileged to represent the Institute when the Lord Mayor of London on the previous day inaugurated the National Productivity Year. This was not sponsored by the Government but was a campaign by industry for industry which was to be greatly commended.

Referring to the recommendations contained in the Parker Report on education and training for the profession, he said no one would regard them as a lowering of standards. Indeed, many were designed to improve standards in the profession. While certain of the recommendations in the report might be thought to be pedestrian, there had been a determination to put forward proposals which were practical. He had no doubt that within five or ten years there would be fresh thoughts in the light of changing circumstances. The basis of entry into the profession must be kept up with the whole of the educational system. There were two minority reports by members of the Parker Committee, one of which advocated greater co-operation with universities. There was undoubtedly great scope in the profession for men and women of high qualifications.

The proceedings concluded with a vote of thanks to the chairman proposed by Mr J. V. Eastwood, Vice-President of the Manchester Society.

### Notes and Notices

### PROFESSIONAL NOTICES

MESSRS CHAPMAN & NEWBERY, Chartered Accountants, of P.O. Box 482, Beyoğlu, Istanbul, announce that they have moved their offices from 239 Istiklal Caddesi, Beyoğlu, to 96 Gumussuyu Caddesi, Taksim. The post box address, cable address and telephone number remain unchanged.

Messrs Robson, Morrow & Co, of London, and Messrs W. H. O'Donnell & Co, of Limerick, Messrs Magennis, Burns, Griffin & Co, of Cork, and Messrs P. A. DUGGAN & Co, FORSYTH & Co, PETERSON, Morrison & Co, Purtill & Co, Briscoe, Smith & Co and JOHN WOODS & Co, all of Dublin, announce the formation of a separate partnership under the name of Robson, Morrow & Partners. The partners in the new firm are: Mr Francis Trevor Hunter, Mr PETER GEORGE TARGETT, Mr ROBERT IAN MORRISON, Mr JAMES MULLARNEY, Mr PATRICK McGILLIGAN, Mr John Christopher O'Connor, Mr Nicholas JOSEPH O'CONOR, Mr WILLIAM HUGH O'DONNELL, Mr David Nelson Rowe, and Mr Cornelius Frederick SMITH. The firm will practise for the time being from the address of Messrs Briscoe, Smith & Co, 4 Grafton Street, Dublin 2.

Messrs Nicholson, Fraser & Co, Chartered Accountants, of 14 Dartmouth Street, London SW1, announce that as from November 15th, 1962, they have admitted into partnership Mr David B. Nicholson, A.C.A., who has been a member of their staff for a number of years.

Messrs Westcott, Maskall & Co, Chartered Accountants, of London, and Messrs Hunt, Hopkins & Lorimer, Chartered Accountants, of Portsmouth, jointly announce that as from November 1st there has been a fusion of their interests; and that in future the practices will be carried on under the style of Westcott, Maskall & Co, Westcott, Maskall & Partners and Hunt, Hopkins & Lorimer.

Messrs J. Wild & Co, Chartered Accountants, of 72–76 Blackburn Street, Radcliffe, Manchester, announce that Mr Noel J. Ince, A.C.A., and Mr George A. R. Lomax, B.A.(Com.), A.C.A., have been admitted into partnership.

### **Appointments**

Mr Andrew Barrowman, B.L., B.COMM., C.A., has been elected to the board of Associated Fisheries Ltd.

Mr William Clark, F.A.C.C.A., M.P., a member of the Council of The Association of Certified and Corporate Accountants, has been elected joint secretary (with Mr Maurice Macmillan, M.P.,) of the Conservative Party Finance Committee.

Mr G. A. Lemon, F.C.A., controller of Sperry Gyroscope Co Ltd, has joined the board of the company. He will continue to act as controller.

Mr David A. Perkis, F.C.A., has been appointed a director of Woolcombers Ltd.

Mr T. D. Redhead, F.C.A., has been appointed deputy chairman of Ballito Hosiery Mills Ltd.

### ASSOCIATION OF CHIEF FINANCIAL OFFICERS

Mr Reginald Stacey, M.B.E., F.I.M.T.A., A.A.C.C.A., finance officer, Sheffield No. 1 Hospital Management Committee, has been elected chairman of The Association of Chief Financial Officers in the Hospital Service in England and Wales for the year 1962–63. Mr Basil G. Spencer, F.S.A.A., F.I.M.T.A., F.H.A., finance officer, Tunbridge Wells Group Hospital Management Committee, has been elected vice-chairman of the Association.

### IN PARLIAMENT

### **Building Societies: Interest Payments**

Mr MILLAN asked the Chancellor of the Exchequer by how much the annual yield of income tax and surtax is reduced by allowances for building society interest paid by owner-occupiers.

Mr BOYD-CARPENTER: The tax allowances in respect of building society interest paid by owner-occupiers are in substitution for the relief they would have obtained if the normal rules had applied and they had been entitled to deduct income tax from the interest. The yield of tax is thus not reduced by the allowances to which the hon. Member refers.

Hansard, Nov. 15th, 1962. Written Answers, Col. 68.

### Tax Allowances: Life Assurance and National Insurance

Mr Ross asked the Chancellor of the Exchequer what is the annual cost of life assurance relief for personal income tax purposes.

Mr BOYD-CARPENTER: About £60 million for 1962-63.

Mr Ross asked the Chancellor of the Exchequer what is the annual cost of the relief for National Insurance contributions and of the deductions allowed for contributions to superannuation schemes, respectively, in terms of the yield of personal income tax and surtax.

Mr Boyd-Carpenter: In 1962-63 about £100 million in respect of National Insurance contributions.

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of insured persons and about £50 million for contributions by employees to superannuation schemes.

Hansard, Nov. 15th, 1962. Written Answers, Col. 69.

### Retirement Annuities: Tax Relief

Mr MILLAN asked the Chancellor of the Exchequer how many insurance policies making provision for retirement annuities for the self-employed and controlling directors are now currently ranking for taxation relief under the provisions of the Finance Act, 1956; and what is the annual relief of tax.

Mr Barber: In all, there are about 170,000 policies making provision for retirement annuities which rank for tax relief under the Finance Act, 1956; the tax relief involved is about £8 million. Some of these policies relate to employees who do not hold a pensionable office or employment; and it is not possible to say how many of them relate to self-employed persons and controlling directors.

Hansard, Nov. 15th, 1962. Written Answers, Col. 69.

### **Investment Allowances**

Mr MILLAN asked the Chancellor of the Exchequer what is the current annual cost of investment allowances in terms of taxation yield, not allowing for the increases in the rates of the allowances recently announced.

Mr Barber: About £155 million based on the 1962 levels of expenditure.

Hansard, Nov. 15th, 1962. Written Answers, Col. 70.

### **DOUBLE TAXATION: JAPAN**

The Double Taxation Convention with Japan, which was signed on September 4th, was published last week as the Schedule to a draft Order in Council.

### THE ASSOCIATION OF IRISH CHARTERED ACCOUNTANTS IN LONDON

The President of The Institute of Chartered Accountants in Ireland, Mr R. E. McClure, M.B.E., F.C.A., and the Secretary, of the Institute, Mr William Stuart Orr, B.A., LL.B., A.C.A., were guests at a dinner held in London on November 12th to mark the formation of a new district society of the Institute, to be known as The Association of Irish Chartered Accountants in London

At a meeting following the dinner Mr A. N. Harper, F.C.A., was elected chairman of the new society and the following committee was appointed:

Messrs Alfred Jones, A.C.A.; J. G. Kenny, A.C.A.; P. V. C. McGrath, A.C.A.; E. J. McKelvey, A.C.A.; C. H. Nicholson, F.C.A.; A. D. Shanagher, A.C.A., and Mr R. W. Billington, A.C.A., honorary secretary.

Members of the Institute who take up appointments in the London area are invited to communicate with Mr Billington at the following address: c/o McCann, Bentley & Co, Chartered Accountants, 1-2 Hanover Street, London W1.

### THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

### **London Cost Conference**

Exports, the costs, the risks and the rewards' was the theme of a London Regional Cost Conference held last Saturday by The Institute of Cost and Works Accountants at the Connaught Rooms. The principal speakers were Mr F. M. W. Hird, F.C.A., F.C.W.A., Immediate Past President of the Institute, and Sir Archibald Forbes, G.B.E., C.A., chairman of the Central Mining & Investment Corporation Ltd and a former president of the Federation of British Industries. The Rt Hon. Lord Robbin of Waldingham, P.C., addressed delegates at the conference luncheon.

In his paper, Mr Hird said that it was ironic that there should be more talk and attention paid to exports at a time when the distinction between them and home trade was likely to diminish over the years. His own company, he said, had been exporting for nearly a century and they had come to regard the United Kingdom as just one of the countries in which they had to sell. In his opinion, an exporting company was less subject to violent fluctuations in trade than one producing for the home market alone. After outlining the intricacies of export documentation, Mr Hird said that the anxiety as to whether or not a foreign customer would pay for the goods was often most acute with those who exported least. Dealing with insurance, Mr Hird said the best known was that provided by the Export Credits Guarantee Department. Whilst the department had achieved considerable success with its service to customers he felt that it still had some way to go before exporters found the cover given, and the cost of it, satisfactory. One particular objection which he had put to the department was that there should be an arrangement whereby the commercial risk should be separated from the political risk, i.e. the customer's nation disallowing proceeds to be remitted. Mr Hird said that the reason given to him was that a separate insurance for a political risk would be regarded as a subsidy for exports and that was something the Board of Trade had strongly resisted due to its efforts to persuade other countries to give up any form of export subsidy. It was an unfortunate state of affairs, he declared, particularly when there were many overseas customers willing to trade with us, but trade was overshadowed by the anxiety of some Government moratorium or suspension of payments.

Sir Archibald Forbes gave some interesting views on the importance of exports to the United Kingdom's economy, and the problems faced by the exporter in the fields of finance, pricing and competition. He also dealt with the influence of Government policy on exports and the situation in relation to existing international agreements.

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### STOKE-ON-TRENT CHARTERED ACCOUNTANTS' DINNER

The annual dinner of the Stoke-on-Trent Area Branch of the Birmingham and District Society of Chartered Accountants was held at The North Stafford Hotel, Stoke-on-Trent, on November 13th, and was attended by 216 members and guests. The Chairman of the

Branch, Mr R. R. Gower, F.C.A., presided.

In his response to the toast of 'The Institute of Chartered Accountants in England and Wales,' Mr G. T. E. Chamberlain, F.C.A., a member of the Council of the Institute, said there was no doubt that the status of the profession and the chartered accountant had grown enormously in the last few years, and there was a tremendous call by industry generally for qualified accountants. Many men in the highest positions today, said Mr Chamberlain, had attained them because they had first qualified as accountants. But the recent intake from universities had been disappointing and in the last four years an average of only 250 to, 300 graduates a year - about 9 per cent of the articled clerks registered annually - had entered the profession. 'We do feel we should get a larger proportion. No profession or industry has anything better to offer', he said.

The profession, Mr Chamberlain continued, had to attract the best of the boys from grammar schools as well as graduates. The Institute had not yet convinced the careers officers at the universities that the profession was 'second to none' and if the graduate spent an extra three years' work in accountancy he would go a long way. Mr Chamberlain said there was also scope in the profession for more women members.

Mr Gower proposed the toast of "The Guests', and Mr J. C. H. Halsall, President of the British Pottery Manufacturing Federation, replied.

### MANCHESTER SOCIETY OF CHARTERED **ACCOUNTANTS**

### **Discussion Group**

The following officers were recently elected to the committee of the Manchester Society of Chartered Accountants' discussion group:

Chairman: Mr F. Broadie, F.C.A.

Secretary: Mr M. J. Croll, 46 Fountain Street, Manchester 2.

Committee: Mr D. H. Eglin, LL.B., A.C.A., and Mr F. A. Sherring, F.C.A.

### MANCHESTER CHARTERED ACCOUNTANTS STUDENTS' SOCIETY

At a recent committee meeting of the Manchester Chartered Accountants Students' Society, Mr J. Townsley, B.COM., A.C.A., was appointed honorary secretary of the Society in succession to Mr F. A. Watson, B.A.(COM.), who has resigned.

### SEVENTY-FIVE YEARS AGO

From The Accountant of November 26th, 1887

A Weekly Note

Music is an excellent thing, but if out of tune or out of season is calculated to do anything but soothe the "savage breast." The itinerant cornet players and organ grinders, who infest the vicinity of the Institute after nightfall, cause great irritation to members who either wish to speak or to listen at the meetings of the London Students' Society. Mr. VAN DE LINDE discourses on "A Merchant's Office," or Mr. Fletcher describes a system of fraudulent bookkeeping to the very audible tune of "She wore a wreath of roses," or "Do not forget me" (Maid of the Mill). The latter injunction is, however, scarcely necessary in regard to lecturers who have made their mark.

### THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of The Chartered Accountant Students' Society of London will be held during next

Wednesday, 5.30 p.m., Lecture, and demonstration of punched card accounting (limited number); 6 p.m., at the Institute: Impromptu 'Hat' debate.

Thursday, 5.15 p.m., at Winchester House, Old Broad Street, EC2: Introductory course lectures on – (1) "Taxable income", by Mr J. Kennedy Melling, F.C.A., F.T.I.I., F.R.ECON.S., and (2) "The law of sale of goods', by Mr R. Lowe.

Friday, '59 Club' dance at St Bartholomew's Hospital.

### DEFENCE BONDS: CONVERSION OFFER

The Treasury has announced that a conversion offer will be made to holders of 3½ per cent Defence Bonds, purchased between September 16th, 1952, and March 15th, 1953, and maturing on March 15th, 1963.

These holders will be invited to exchange their holdings into 5 per cent Defence Bonds (Second) Conversion Isuse) on March 15th, 1963. Holders who accept the offer of conversion will receive a final interest payment of six months' interest at 3½ per cent per annum on March 15th, 1963. A first interest payment on the Conversion Issue Bonds will be made on July 1st, 1963, in respect of the period from March 15th, 1963, to June 30th, 1963. The terms of the new Bonds will be the same as those of the 5 per cent Defence Bonds currently on sale except that interest will be payable on January 1st and July 1st. The lists of acceptances of the conversion offer will be closed on December 14th, 1962.

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### Shape of Taxes to Come?

EPORTS appear on other pages in this issue of two conferences held concurrently in London and Brighton at the end of last week. Both were concerned with that vital, controversial, frustrating subject - taxation. While, however, in Brighton, the tax conference of the London and District Society of Chartered Accountants was devoted to present-day problems of taxes in Britain, in London a conference sponsored jointly by The Federal Trust for Education and Research and the United Kingdom Branch of the International Fiscal Association was concerned with the problems of taxation in relation to the Common Market and the effect of harmonization on the British tax system if this country joins the European Economic Community.

Of particular interest was the address on tax harmonization given at the London conference by Professor F. NEUMARK, Chairman of the Fiscal and Financial Committee of the E.E.C., which we have the privilege of reproducing exclusively in this issue.

The case for a measure of harmonization or unification of the national tax systems is based upon the fact that different taxes exert widely differing economic effects and which, in varying degrees, produce distortions in the pattern and direction of international trade which are inconsistent with the objects of the European Community. In this respect the British stamp duties are especially objectionable and in the opinion of Professor Neumark, should be 'abolished as fast as possible'. Because of its high rates, British estate duty, he said, exerts similar distorting effects on the movement of capital and should be replaced by a form of inheritance tax.

British readers will note with approval the Professor's forthright comments on the need 'to ensure that in every member country a similar efficiency in tax assessment, collection and control' should exist. No one will dispute his statement that 'there seems at present to be considerable differences in this respect among member countries', which makes a direct comparison of the effective tax rates impossible.

If the French 'value added tax' was generally adopted in the E.E.C., then the United Kingdom purchase tax would have to go, stated Professor NEUMARK. He added that it would not be immediately necessary to bring about uniform rates of indirect taxation on goods such as alcohol and tobacco, which are universally taxed. Duties on articles which are taxed in some countries, such as matches, playing cards in the United Kingdom and not in others, would probably have to be abolished. 'Any solution of the problems', concluded Professor NEUMARK, 'can at best be no more than a reasonable compromise between vested national interests'.

### Protecting the Depositor

OR many years the offer of shares or debentures to the investing public has been hedged about with restrictions and safeguards aimed at protecting the public and punishing the dishonest promoter. Until a few years ago the layman might well have been pardoned for believing that much the same protection applied in the case where the public were invited to deposit money. That there was in fact a gap in the law in this respect has become increasingly obvious, not least to persons minded to make a lot of money quickly at no risk to themselves. The immense growth of hire-purchase selling, in which there seems hardly any limit to the rate of interest which purchasers will pay, as long as it is wrapped up in 'hire-purchase charges', has given a tremendous fillip to the activities of persons desiring to obtain deposits of money from the public for hire-purchase finance.

Scandal arising from the activities of the less scrupulous operators in this field has driven the Government to close the gap in the law, and the result is the publication of the Protection of Depositors Bill, a very carefully thought out document aimed at punishing those who rely too much on the credulity of the investing public, and also at giving that public more information about the companies to which they lend money.

The power to punish a person who is not over careful about what he says when inviting deposits is strengthened by clause I of the Bill which imposes a term of imprisonment of as much as seven years for attempts to obtain money on deposit by any one of the three following methods:

- (i) a statement, promise or forecast which he knows to be misleading, false or deceptive;
- (ii) dishonest concealment of material facts;
- (iii) the *reckless* making of any statement, promise or forecast which is misleading, false or deceptive.

The same punishment applies if any of these things is done to induce a person to enter into an agreement to invest money on deposit; or even to induce a person to offer to enter into such an agreement. Needless to say, the clause also applies if there is not merely an attempt but an attempt which succeeds. All these things are probably

punishable already, but not with seven years' imprisonment.

Clause 20 substitutes a new paragraph (b) for the existing paragraph (b) in section 13 (1) of the Prevention of Fraud (Investments) Act, 1958, which imposes a like penalty for similar deception. The paragraph deals with schemes under which the investors' money is turned into some property other than securities (e.g. pigs) on the footing that the investors are to participate in profits coming from the management or disposal of such property.

Clauses 1 and 20 are somewhat outside of the main theme of the Bill, which is the control of advertising for deposits of money. The Bill adopts the now familiar method of imposing a completely general prohibition, and then providing for exceptions which are subject to strict supervision. Clause 2 (1) provides quite generally that:

'No person shall, after the commencement of this Act, issue any advertisement inviting the public to deposit money with him.'

This is not, as some newspapers have implied, a prohibition only on companies. It is on all persons, natural or juridical. The full implications of this prohibition emerge only when one studies the definition clauses. 'Advertisement' is not, strictly speaking, defined, but clause 25 (3) provides that the expression 'includes' every form of advertising, whether in a publication or by the display of notices or by means of circulars or other documents or by an exhibition of photographs or cinematograph films, or by sound broadcasting or television. References in the Bill to 'issue' in relation to an advertisement are to be construed in accordance with this wide meaning of 'advertisement'. If an advertisement is issued by way of display or exhibition in a public place, the person issuing it is to be treated as issuing it on every day on which he causes or permits it to be displayed or exhibited in that public place.

The invitation need not be couched in the form of an invitation to be within the prohibition. An advertisement which contains information calculated to lead directly or indirectly to the deposit of money by the public is to be treated as an advertisement inviting the public to deposit money (clause 25 (4)). 'The public' includes any

section of the public, however selected, including, in relation to a company, a section selected as members or debenture-holders, or depositors, of a company. Clause 2 (1) in form confines the prohibition to the case where the person issuing the advertisement is the same as the person who is to receive the deposits. However, an advertisement issued by A. on behalf of (or to the order of) B. is to be treated as issued by B. Moreover, where proceedings are being taken against B. under the Act, an advertisement inviting deposits with B. are to be deemed to be issued by B., unless he can prove the contrary (clause 25 (5)). The practical usefulness to the authorities of this provision hardly needs stressing. Two of the comparatively few words in clause 2 (1) which are not specially defined are the verb 'to deposit' and the noun 'money'.

The penalty for contravening clause 2 (1) is two years, with the possible addition or substitution of a fine. This is where proceedings are by indictment. Summary conviction can involve three months' imprisonment and a £200 fine (clause 2 (5)). A person issuing an advertisement on behalf of someone else can escape conviction if he proves that neither he nor anyone acting under his direction had a part in the wording of the advertisement. This will protect proprietors of newspapers and other advertising media.

Clause 2 (1) is subject to the exemptions in subclauses (2), (3) and (4). These apply to advertisements 'with respect to' the following matters:

- (i) investments within the Trustee Investments Act, 1961, First Schedule;
- (ii) deposits to be made with any banking or discount company within the meaning of the Companies Act, 1948, Eighth Schedule, paragraph 23 (i.e. one which satisfies the Board of Trade that it ought to be treated as a banking or discount company);
- (iii) deposits with a building society;
- (iv) deposits with an industrial and provident society;
- (v) deposits to be made with a company incorporated in (or having an established place of business in) Great Britain; if
  - (a) the advertisement complies with Board of Trade regulations; and
  - (b) the company duly delivers, before the issue of the advertisement, any accounts required by the Bill;

(vi) deposits of any such class as may be prescribed by Board of Trade regulations.

Finally, the Board of Trade can give permission in writing for a particular advertisement, subject to such conditions as the Board may think fit; but special permission cannot be given for an advertisement for deposits to be made with a company which falls within (v) above, i.e. a company incorporated or having an established place of business here. 'Company' is widely defined by clause 24 (1), but it does not include a banking or discount company within (ii). Thus it is possible for an individual, or a partnership of individuals, to obtain special permission, and this would be necessary in the case of a banking firm which was not a 'company'. On the other hand a company which called itself a banking company would not necessarily be within (ii), and if it was not it would have to comply with the requirements of (v). These requirements which appear in clauses 5 to 14 inclusive take up the major part of the space covered by the Bill.

Broadly speaking, these requirements concern the regular submission of audited accounts, both to the authorities and to individual depositors. Before a company issues an advertisement after the appointed day (i.e. three months after the Act is passed) it must deliver to the Registrar of Companies and to the Board of Trade audited accounts up to a date not more than fifteen months before the advertisement, covering a period not less than six months. Moreover, if those accounts are made up to a date more than nine months before the advertisement, the company must also deliver interim accounts, which need not be audited. The periodical accounts to be delivered after the advertisement are to consist of annual audited accounts and interim six-monthly accounts which need not be audited. The periodical accounts must be lodged within three months after the end of the accounts period. When, broadly speaking, the company ceases to invite deposits, there is provision for bringing to an end its liability for lodging accounts as required by the new Bill. There are special provisions for companies which have already issued advertisements, and for newly incorporated companies. For the purpose of accounts required by the Bill, the auditors must qualify as auditors to companies which are not exempt private companies.

### Tax Harmonization in the Common Market

by PROFESSOR F. NEUMARK Chairman of the Fiscal and Financial Committee of the E.E.C.

THE need for a harmonization of taxes within the Common Market was felt first in the field of the general sales, or turnover, tax; the controversies about the right, or rather the just and fair, solution of the problems involved date back to the early days of the Coal and Steel Community. In the Rome Treaty which created the foundations of the European Economic Community, Articles 95-99 deal with tax questions but they too are more or less restricted to so-called indirect taxes, that is, aside from the general sales tax, excises and probably such taxes as stamp duties. The aim of these articles is to avoid tax measures capable of bringing about distortions of fair competition among member countries, as might result from taxes of different structure and levels on goods and services which, to a more or less considerable extent, are exchanged by way of imports and exports.

### No Tax can be Judged in Isolation

When the committee asked by the Brussels authorities to investigate the problems of tax harmonization started their work, they very soon reached the conclusion that a reasonable solution of these problems could not be restricted to the general sales tax and excises. There is, in fact, no single tax, the economic, social and fiscal impact of which could be judged rightly in isolation. Rather one has to consider it as an integral part of the national tax system to which it belongs. One of the consequences of this is the following: assuming that the Treasury of a country has to provide tax revenue for a given amount of public expenditure, every measure aiming at a modification of the effective burden and consequently of the yield of a particular tax cannot but have repercussions on other elements of the said tax system, e.g. a rise of the general sales tax, other things being equal, will lower the relative

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importance of excises, income tax, etc., and vice versa. At the same time one must not overlook the fact that the actual structure of national tax systems is very much the product and result of national peculiarities which, in the course of a long historical process, have influenced the structure of those systems as well as the methods of collection, assessment, control, etc.

Now the effects of a tax on costs, prices or profit expectations vary to a greater or lesser extent from tax to tax. Further, even the effects of one and the same tax may differ from country to country according to the institutional and other conditions of the respective economies, such as the degree of competition or of monopolization. It is true that a number of modern economists tend to believe that the time-honoured distinction between direct and indirect taxes, as far as it is based upon the assumption that the latter are shifted to consumers whereas the former are not, is not justified. I think, however, that taxes such as a general sales tax or excises are by their very nature much more likely to be shifted than a general income or even a corporation tax.

But however that may be, it seems to be undeniable that as a result of different economic repercussions of different taxes, the sole fact that tax systems of various countries are composed in a rather dissimilar way can give rise to distortions of international competition. Therefore a certain assimilation of national tax system structures will probably be the necessary complement of every effort to harmonize this or that important single tax.

### **Tax Comparisons**

Just to give a rough idea of the present situation, I would like to mention that in 1959 the share of income taxation (income tax, corporation tax and the so-called business tax or Gewerbesteuer) in the total tax revenue on all levels was around 42 per cent in Germany and the Low Countries, as against 28 per cent in France and 23 per cent in Italy, the corresponding percentage in the U.K. being 44 per cent. On the other hand, and, of

course, as a reflection of the fact just mentioned, the general sales tax in France yielded nearly 35 per cent of the tax total, as against 20 per cent in Italy (a country which relies heavily on special excises), 25 per cent in Germany, and about 8 per cent only in Great Britain where, however, the purchase tax is rather far from being a really general sales tax.

### Effect of Differences in Tax Burdens

It would be completely erroneous to assume that the quite considerable national differences with respect to the absolute and relative burdens or yields of various taxes could be explained mainly by corresponding differences in tax rates. Rates, it is true, form an important determinating factor in this respect but aside from them, many other elements have to be taken into consideration. Among them one finds, e.g. in the field of turnover tax and excises, exemptions, or within the framework of so-called direct taxes, all kinds of legal rules and regulations relating to the basis of assessment (depreciation allowances, stock evaluation, etc.). Moreover, the absolute and relative efficiency of tax administration is of very great importance. If in a country A. interests and dividends are formally subject to a 30 per cent tax, but half of the amounts paid out are not taxed at all because the non-existence of a stoppage at source invites, and enables, taxpayers to avoid the tax, then the real tax burden in A. may, on the average, be well below that in a country B. where dividends have to pay only 25 per cent but tax evasion is nearly impossible. Similarly, the following example may show the importance of legal tax exemptions: if in two countries, A. and B., there exists the same kind of net value added tax, the sole difference being the fact that in A. the rate is 10 per cent, and in B. 12 per cent of the final consumer price of goods, then, other things being equal, goods in B. will have to bear an over-tax in comparison with A. which, in terms of tax rates, amounts to 20 per cent, in terms of prices to 2 per cent. On the other hand, if on principle, tax rates are the same in both countries, say 12 per cent, but in A. certain commodities are exempt, whereas in B. they are liable to tax, then the difference of tax burden in erms of prices will be 12 per cent. In this latter. ase the difference, therefore, is six times as high s in the former.

Let us now turn to another much discussed problem, namely, the question whether differences – at least considerable ones – in the overall 'tax burdens' of various countries are likely to cause

disturbances of foreign trade conditions. These so-called 'burdens' can be expressed *inter alia* in terms of absolute amounts per head, or as a percentage either of per head income or of gross national product, or of national income. Aside from other statistical difficulties, there arises the question of which duties should be included in the 'tax' total.

Most contemporary economists seem inclined to consider compulsory contributions to social security as duties which, from the point of view of their economic impact, are very much the same as taxes proper. To illustrate the case, I would like to mention that in 1959 the share in G.N.P. of taxes on all levels of government, social security contributions included, amounted to 24.4 per cent in Belgium, around 29 per cent in Italy, Luxemburg and the Netherlands, and about 34 per cent in France and Germany. Does that mean that the tax burden of the economy in comparison with that in Belgium was 20 per cent higher in Italy etc. and 40 per cent higher in Germany and France, and can one deduce from these differences that in order to bring about more or less equal conditions of international competition, one would have to even up the said differences?

The answer to this question is a definite 'No'. First one must not overlook the fact that neither from the micro-economic nor from the macroeconomic point of view can taxes simply be put on a par with 'burdens' since they are not levied for their own sake but in order to render possible the production of public goods and services. Under present-day conditions, one can assume that normally the utility of services financed out of taxes is more or less greater than the disutility resulting from the collection of those taxes. If, and to what extent, this is true depends, of course, on the nature of taxes used as well as on the character of the public expenditures they allow to finance. Further, I do not deny that for individual taxpayers, or groups of taxpayers, there will often subsist a real net tax burden even after consideration of the utilities they will derive from their participation in tax financed public services.

### No Need for Elimination of Differences

Nevertheless, it remains true that in general a higher share of over-all tax payments in G.N.P. does not necessarily mean a higher over-all burden on the economy as such – normally, it will be rather the other way round. In this respect one has also to be aware of the fact that rich countries can afford a higher relative tax level than poorer ones.

As a result we may say that there is no general need for an elimination of differences in national over-all tax burdens. However, a certain qualification of this general statement seems indicated: if there exist important differences in relative overall tax burdens and if these differences, which supposedly are not compensated by corresponding differences in the amount and/or the quality of tax financed public services, spring from the fact that the high tax country is a poor one and has to compete with rich economies which, precisely because they are richer, can content themselves with lower taxes, then there may arise a certain exodus of capital and/or manpower from the former country, which, under these conditions, will try to prevent such a course of events by either reducing the quantity and/or the quality of public services, or else raising tax rates. Obviously, in both cases, measures of this sort will cause an aggravation of the situation. The only remedy then will be a certain supra-national equalization of tax burdens; in other words: subsidies have to be granted by the richer countries to the poorer ones which in this way will be enabled to create, or maintain, conditions of reasonable com-

After the preceding remarks which concern facts and problems of a rather general character, I would like to turn to an investigation under integration aspects of some particular taxes. Here, again, it seems useful to distinguish between quantitative and qualitative problems. Since my time is very restricted I will have to confine myself to a few observations relating to those taxes which both from the economic and the fiscal point of view play today an important role.

### Stamp Duties should be Abolished

In passing, however, I should briefly mention that in some cases taxes which, though in terms of their relative share in the over-all tax revenue seem to be of minor importance only, may, because of their possible negative repercussions on economic transactions within a Common Market, need a close examination as to whether their harmonization is useful, or even necessary.

This is true, e.g. for most stamp duties, especially those on cheques and receipts, the transfer of stocks and shares on sale, and the companies' share capital duty. All, or nearly all, of these duties originated in times long past when, on the one hand, income and wealth, particularly the more mobile kinds of assets and the produces from them, were not yet taxed in an effective and adequate way by taxes on income and net value, and where, on the other hand, a general turnover tax was till unknown. Even apart from the necessities of a Common Market, the said duties should, in my opinion, be abolished as fast as possible. Their elimination from a modern and rational tax system is in fact overdue. Economic integration still emphasizes the urgency of such a reform. In many

countries stamp duties form a serious obstacle to a free exchange of capital, all the more as often they discriminate against foreign capital or foreign capitalists. The fact that the total yield resulting from these duties represents a small percentage only – say 1–2 per cent – of total tax revenue should, in theory, facilitate their repeal. In practice, however, such a seemingly revolutionary proposal will meet with strong opposition from all conservative-minded civil servants. For this reason it would be wise to consider a gradual reduction rather than an immediate and complete abolition of the said duties some of which might be given the character of moderate fees.

### Tax on Net Wealth Advocated

In several countries inheritance, estate, and gifts taxes are also thought of as belonging to the group of taxes on capital transactions. Inheritance taxes, and especially estate duties, cannot rightly be judged without considering the question whether or not they are part of a tax system which comprises taxes on net wealth, for to a large extent an estate duty fulfills the same fiscal functions as a tax on net wealth. With respect to this latter tax, I would like to mention that within the six member States of the present E.E.C., three - Germany, the Netherlands and Luxemburg collect such a tax whereas the others so far do not. Tax experts are inclined to believe that in a modern tax system personal and progressive income taxation should be complemented by an equally personal tax on net wealth. In this respect they are in favour of rather moderate tax rates and they propose to restrict the scope of the tax to individuals only as against the current practice which, by also taxing capital of corporations, results in what may be called virtual economic double taxation. If and when a harmonization of net wealth taxation is accomplished on these lines, a certain difference in national tax levels will not hinder capital movements and/or not cause such movements which are mainly motivated by fiscal considerations.

Generally, neither taxes on net wealth nor estate duties today form an important fraction of tax revenue, the sole exception being the U.K. The share of the British estate duty in over-all tax revenue averaged in the last few years around 3.5 per cent whereas in countries like Germany or France the respective percentage is much less than 1 per cent. Even if, in the German case, the current tax on net wealth is lumped together with the inheritance tax the combined shares of these two duties remain considerably below that of British estate duty only.

### Lower Estate Duty if Britain Joins E.E.C.

On the whole, tax experts of the member countrie of the E.E.C. hold that it is not necessary to do much about quantitative inheritance tax harmonization since differences of effective tax burdens among the

Six are in most cases not very important. They think, however, that in order to increase 'tax transparency'. t would be wise to apply in every member country nuch the same kind of inheritance taxation. But there is not the slightest doubt that in regard to the British estate duty, the absolute and comparative level of tax rates is such as to represent a very heavy obstacle to the good functioning of a Common Market. Since in all probability the other countries will not be willing to accept such extremely high rates as they exist in your country (although I for my part have for a long time proposed a marked rise in effective German inheritance tax burdens), Great Britain's entrance into the European Community cannot be imagined without being followed by a noticeable lowering of her present estate duty. The loss for the Budget resulting from such a measure could easily be made up by introducing a moderate tax on net wealth of, say, I per cent.

### Turnover Tax and Excise Duties

I now turn to a brief survey on some questions relating to the general sales or turnover tax on the one hand, excise duties on the other hand.

It should be clear that from the point of view of a ceal Common Market where economic conditions have to be much the same as within the national economy of one single State, not only customs frontiers but also tax or fiscal frontiers should cease to exist, at least for all intra-community movements of goods, services and capital. This, in turn, would require the general application of the so-called origin principle as against the principle of destination.

### Principle of Destination

As is well known, the latter principle implies that goods and services, wherever they may have been produced, are subject to the taxes of the country in which they are finally consumed or used. Consequently a commodity, no matter whether it has been produced totally in country A. or has been imported rom country B. or C. or whether it has been produced n A. by means of raw materials, machines, etc., mported from this or that other country, has to pay the same kind and amount of general and special excise duties. In as far as these duties are different from country to country, the application of the destination principle requires (a) the refund of previous tax payments in the case of exports and (b) the levying of compensatory import duties. In both cases, control measures and for this reason, the maintenance of so-called fiscal frontiers are indispensable.

### Origin Principle

On the other hand, if and when the origin principle is applied, goods and services, irrespective of the place of their final consumption or utilization, will have to pay the excise duties levied in the country where these goods have been produced. Consequently, a

commodity manufactured partly in country A., partly in country B. and whose raw materials have been produced in C., has to pay the sum of excise duties (with, eventually, the general turnover tax included) levied in C. on the raw materials and in A. and B. on the respective parts of values added by manufacturing. It follows that in a given country a commodity is always subject to the same tax total, no matter whether it is consumed in this country or elsewhere.

Provided the tax rates be different from country to country, the tax total to be borne by concrete specimens of a given category of goods, however, will differ according to whether they have been totally produced in the country of consumption or have been produced wholly or in part in other countries. There is no need for fiscal frontiers, nor for tax refunds in the case of exports, or for compensatory import duties. But obviously, the application of the origin principle causes artificial distortions of foreign trade conditions in so far as the excise duties concerned are different from country to country with respect to kind and level.

I have to add that the scope of the distinction between the two principles just mentioned is restricted to so-called indirect taxes. As a matter of fact, the principle of destination as such cannot be applied to taxes on income, net wealth, legacies, etc.; for these taxes, another distinction is relevant, namely, that between the country of residence of individuals and companies on the one hand, and the country of the source of income or, in the case of capital taxes and estate duties, that of the situs of assets and/or real property, on the other hand.

At any rate, if one wants to abolish tax frontiers between member countries of an Economic Community, it seems inevitable in the field of indirect taxation to abandon the present system of application of the destination principle in combination with certain compensatory fiscal measures, all the more so, as these measures do not exclude protectionist and discriminatory practices. However, since under the existing conditions the principle of origin leads to serious distortions of international competition, the only possible expedient seems to be a complete harmonization of indirect taxation. Now this is rather a tall order. We will examine the questions involved, first, with respect to the general turnover tax, and second, to excise duties proper.

### Net Value Added Tax

Most contemporary experts nowadays are agreed that the German type of a multiple stage turnover tax, particularly because of its cumulative character and its artificial stimulation of business concentration, is exposed to very strong objections. On the other hand, the French system – to employ the words used by E. B. Nortcliffe in his book on Common Market Fiscal Systems – 'is closer to the economist's ideal than that of any other country'. But even the French

turnover tax system in its actual form is still rather far from being perfect. Whatever it is, tax experts of the six member countries of the present E.E.C. recommend the abolition of the German type of turnover tax and the introduction in all countries of a theoretically 'pure' kind of net value added tax. In order to allow the removal of fiscal frontiers, the new taxes have to be not only similar, but rather uniform, including uniformity of tax rates, exemptions, etc.

Since today the absolute as well as the relative budgetary importance of turnover tax yields differ widely from country to country, these differences being to a large extent due to different levels of effective rates, it is evident that the introduction of a new uniform net value added tax in all member States, whatever the rates, the scope of exemptions, etc., will be, cannot but have far-reaching repercussions on the national budgets. In some countries, especially in France and in Belgium, the proposed reform is likely to cause a considerable loss of revenue, whereas, e.g. in the Netherlands, the result may be just the other way round. Besides, though the initial difficulties of applying such a new tax in an efficient way will be great everywhere, the magnitude of these difficulties will be different from country to country, particularly with regard to taxation of small retailers. That is why it is proposed to exclude retailing from the net value added tax. On the other hand, the value added tax, though considered as the main, or 'basis', turnover tax, will be complemented by a retail sales tax whose rates can be different from country to country without, by its very nature, causing distortions in international trade (aside from cases to which American 'use taxes' apply).

### End of Purchase Tax Envisaged

In this way the system of sales taxation could be given a form which is not only economically superior to that prevailing today but permits at the same time the abandonment of the principle of destination and, consequently, the abolishment of fiscal frontiers. The bi-partition into a uniform value added tax and a non-uniform retail sales tax implies a certain elasticity and allows for differences in national revenue needs. I must add, however, that the level of the retail sales tax is supposed to be rather moderate and that possible differences between tax rates should not be very large. From this it can be deduced that the present British purchase tax would not be compatible with the solution just explained. In any case, this tax can be considered a collection of special excise duties rather than a general turnover tax. Whatever it is, one can hardly imagine the possibility of maintaining this tax in the event that the U.K. joins the Common Market and that tax frontiers and, consequently, tax refunds and compensatory import duties are suppressed.

After dealing with harmonization problems in the field of general sales taxation, I turn now to a short examination of excise duties proper.

As already mentioned, the relative importance of such duties as revenue-raisers is rather different among the six member countries. This is due to several facts. First, quite a few commodities are subject to excises in some countries, whereas in others they are not. Second, rates of duties on certain goods which are taxed everywhere differ from country to country. Third, because of marked differences with respect to national consumption patterns, an excise duty, say on beer on the one hand, tea on the other hand, will provide rather different yields in various countries according to deeply rooted preferences of consumers for one or the other of these beverages.

### Dilemma

In view of this, one finds oneself faced by a serious dilemma: on principle, in a real Common Market, all kinds of goods should be able to be exchanged within the community under conditions of fair competition which evidently excludes large price differences due to different tax burdens; therefore it seems necessary that (a) a given kind of goods is either taxed, or not taxed at all, in all member countries and that (b) with respect to goods which as such are subject to an excise everywhere, the tax rate is the same. Concerning the first point, I would like to mention that today commodities such as coffee, tea, salt, wine, meat, matches, etc., are taxed only in some of the E.E.C. States. Consequently, tax harmonization requires that the member countries agree either to abolish such excise duties where they exist or to introduce them in countries where they do not exist. In most cases the complete repeal of the said duties would be the most reasonable expedient. In order to ease the anxiety of 'harpagons' possibly to be found in the Treasury, I would like to point out that the revenue total of excises on salt, matches, lamps, playing cards, and saccharin amounts in Germany to 0.2 per cent of the over-all tax revenue and even in Italy to 1.1 per cent only.

But there is no doubt that apart from duties of minor budgetary importance, there are others without which no country could, and would, do. Above all, taxes on beer and spirits on the one hand, on tobacco on the other hand, have to be mentioned in this' connection. Revenue from excise duties on beer and tobacco represents as much as 7.4 per cent and 13 per cent of total tax revenue in Germany and Italy respectively. According to the above-mentioned rule, harmonization in this field seems to require a more or less complete uniformity of tax rates. But for reasons mentioned, such a uniformity would have quite different repercussions on the various national budgets. That is why, for the time being, the Brussels committee did not yet think feasible a radical change of existing habits. In other words, though a certain approach with respect to systems and rates of excise duties is very desirable, the different taxes on consumption will be maintained, and consequently the destination principle will continue to be applied to these duties. This, of course, is a recommendation

which is in contradiction with one of the fundamental argets of the report, namely, the abolition of fiscal rontiers. To a certain extent, such an exception may be defended by stressing the fact that exports and mports of commodities subject to special taxes epresent a more or less small fraction only of export ind import totals. Further, it may be hoped that in lue time economic and social conditions of the various member countries will approach each other o such a degree that differences in tax system structures can progressively be diminished and, in he end, a more or less complete harmonization of excise duties will prove to be possible. However, ilready today, a harmonization is inevitable with respect to motor vehicle and fuel taxes, the details of the reforms involved being dependent on the principles which are to be established for transportation and energy policy in general.

### **Income Taxation**

The last remarks of this speech are concerned with noome taxation.

As to income tax proper, that is, the taxation of ndividual incomes, the committee think that in this respect a far pushed harmonization would be neither leasible from the political point of view, nor necessary or the good functioning of the Common Market. Nevertheless, they hold that a certain approach of the noome tax systems and of rules for taxable income computation seems indicated, if only in the interest of greater 'tax transparency', so important for international movements of men and capital.

After discussing the respective advantages and disadvantages of different income tax regimes, the committee arrived at the conclusion that the so-called synthetical system, as against the old French schedular system, should be adopted as such by all member countries. Further, the report points out that an effort should be made to assure in every member country a similar efficiency in tax assessment, colection, and control. In this respect, there seem at present to be considerable differences among the nember countries. In my opinion, it is largely due to a ack in the efficiency just mentioned that the absolute and relative importance of income tax yield in some countries is rather small. It follows that in these cases revenue derived from this tax could be increased considerably if measures of assessment etc. were mproved, whereas tax rates could be left unchanged, or even reduced. On the other hand, experiences in some federal States seem to show that local or national differences in effective income tax burdens do not necessarily cause artificial movements of men and apital, provided these differences are not too big.

### Income from Capital Sources

There is, however, one problem which requires special attention, namely, that of taxing income from capital, such as interest and dividends. The fiscal

treatment of so-called capital gains also has to be considered thoroughly in this connection.

Whereas in Britain the method of stoppage at source has for a long time applied to interest etc., this is still not the case everywhere. The members of the Brussels committee are agreed that the application of uniform rules for the said stoppage is indispensable for the free movement of capital within the Common Market. At the same time they admit that in view of different 'propensities to evade', the stoppage rates have to be varied according to probabilities and opportunities of evasion. Therefore they propose the following solution with respect to *individuals*: in the case of dividend payments to taxpayers whose names are known, or made known, to fiscal authorities, the withholding rate may, according to national tendencies and wants, fluctuate between 10 and 20 per cent, whereas in all other cases a higher and uniform rate will apply which should not be less than 25 per cent.

### **Dividend Payments to Companies**

As for dividend payments to *companies*, it is thought that on principle such payments should be tax-exempt in order to avoid economic double taxation. Considering possible evasion practices, however, the following proposals seem to present a reasonable compromise:

Provided the recipient of dividends is a company which is resident either in the same country as the dividend distributing company, or in another member country of the E.E.C., no tax will be deducted at source. In all other cases, namely, if on the one hand it is unknown to the paying company whether the dividend receiving person is an individual or a company, and on the other hand if – with reservation as to double taxation agreements – dividends are received by a company resident outside of the E.E.C., tax is deducted at the higher of the two rates mentioned, i.e. not less than 25 per cent. There are, however, three points which, in the interest of precision, I would like to explain:

(1) If dividends received by a company are not distributed to the shareholders of this company within, say, two to four years, the said company should pay an additional tax on these dividends.

(2) The non-deduction of tax from dividends received by a company resident in E.E.C. countries will be dependent on the condition that the company has held at least 15 or 20 per cent of the share capital of the paying company during at least one or possibly two years before payments are made.

(3) Since, with respect to individuals, dividend tax withheld at source is normally considered a payment in advance on account of the income tax of shareholders, it seems fair that revenue derived from this tax should, as a rule, be repaid to the Treasury of the country where the shareholder is resident, if this country does not happen to be the same as that which withholds the tax.

### **Profits Tax**

The foregoing remarks, though chiefly relating to income tax proper, could not but allude to some problems of corporation tax also. However, with regard to this tax some additional explanations seem to be indicated.

The Brussels committee recommend the introduction of a distinct corporation income tax in all member countries as in fact it exists today in most States. The rates should be the same in each of the Six and will apply to the absolute amount of company profits. By way of parenthesis, I would like to mention that, in my opinion, this is rather a bad method, especially if used as the only basis of assessment. Personally, I would prefer a corporation tax system consisting of two elements, namely, (1) a flat rate tax on absolute profits and (2) a complementary one, graduated according to the proportion of profits to the working capital of the company. This problem has been touched on in the report but has been left to further investigation. On the other hand, the experts are in favour of different tax rates according to whether profits are distributed to shareholders or ploughed back. In the second case the committee think that on principle, corporation tax should not be much below the marginal rate of income tax which means that at present it would have to be around 50 per cent, this rate being thought to be uniform within the whole Economic Community. With respect to corporation tax on profits distributed, the rate should amount to about half that applied to undistributed profits; however, in order to confer on national treasuries a certain elasticity of their tax policy, corporation tax on dividends will be allowed to vary between the rate just mentioned (in other terms, about 25 per cent) and a rate of 15 per cent, considered as a minimum. Of course, this part of the corporation tax must not be confused with the withholding mentioned a little earlier and relating to individual income tax to which, as a mere payment in advance, it is wholly imputable.

### Effect of National Discriminatory Measures

I would like to add the following remarks relating to both income tax and corporation tax:

Today, income and corporation tax laws in all countries contain regulations which in one way or another, and for this or that reason, grant special favours to, or discriminate against, certain groups of individuals, branches of industry and trade, etc. Fiscal measures of this kind are indeed part and parcel of present time's 'planless planning policies'. They cannot but distort conditions of competition within the national economy, and since they are different in kind and level from country to country, they imply at the same time distortions in the field of international trade also. That is why a certain harmonization of those regulations seems of paramount importance for the good functioning of a Common

Market, a harmonization which in turn requires an agreement among the member countries on the principles of their policies of growth, employment, monetary and financial stability, etc. One can, of course, imagine structural peculiarities of an economy which will induce the Government to take protectionist and/or discriminatory measures in the field of taxation as well as in that of economic policy proper. It is possible that in certain events, measures of this kind will not give rise to distortions of international competition. However, in these cases the European Economic Commission as such should have to decide whether or not the said measures are compatible with the spirit of a Common Market.

In passing, it may be mentioned that the report deals also with problems of international double taxation. In this respect, the experts hold that future agreements should be shaped along the lines provided in the model agreement by the O.E.C.D. In the end, member countries should arrive at a multilateral convention.

### Conclusion

To sum up: tax harmonization appears to be a much broader and more intricate issue than most economists thought until recently. It implies inter alia the resignation of many deeply rooted habits on the taxpayers' side as well as on that of the Revenue Department and even of tax consultants. Any solution of the problems involved can at the best be no more than a reasonable compromise between vested national interests. Further, tax harmonization is a process of long duration. It cannot be achieved at once, rather it requires a realization by stages. This, however, should not represent a pretext for hesitating politicians and civil servants to delay the necessary reforms. In fact the Brussels committee's report contains a kind of 'time-table' which indicates rather clearly what has to be done when.

Finally, I would like to stress the fact that tax harmonization in the Common Market has to be complemented by the harmonization and co-ordination of principles recognized by all member countries as guide-posts to rational economic, fiscal, and monetary policy. Without mutual understanding on such principles, all efforts are doomed to remain patchwork.

May I conclude by expressing my firm conviction that notwithstanding the manifold and numerous difficulties which the harmonization of taxes and, for that matter, the economic integration process as a whole will meet with, fact and institutions have already developed in such a way that a failure of the great work is not any more conceivable. The Europear Common Market — nay, the economically and politically 'United States of Europe'—only a decade ago seemingly a mere Utopia—are on the march, and it is my sincere hope that Great Britain will feel able to join the Six, if not immediately, at least in the near future.

### Problems of the Smaller Practice - I

by R. W. SMITH, O.B.E., T.D., F.C.A.

### Introduction

MUST start with a few words about the title of this paper. At the beginning it seemed right, but -as I went a little way with my preparations I began ) feel that I should have restricted the title by calling 'Some problems of the smaller practice', but now 1at the task is finished, and I have had the help and dvice of many members of the Institute in small ractices, I am convinced that even more correctly should be 'A few of the problems of the smaller ractice' - but I am sure that these few which can nly be dealt with somewhat broadly in a paper of is length will not only help to stimulate discussion n this summer course but may also reach a wider rcle and even help to produce means of solving or leviating some of these problems of the smaller ractice.

2. It is in the nature of summer courses that some of ie topics which form the subject-matter of this aper have been discussed before. For other aspects these problems that face the practitioner I should be to refer you to previous papers, especially those Mr H. T. Nicholson in 1949 on 'Some problems' general practice', Mr R. W. Foad in 1952 on 'The lice organization of an accountant in practice', Mr

Perfect's paper in 1960 with a similar title<sup>3</sup>, Ir W. L. Barrows on 'Some problems of the charred accountant in practice' in 1953<sup>4</sup>, and Mr D. V. ouse's 'Professional ethics' in 1956<sup>5</sup>. I have taken the liberty of quoting from these and other papers.

3. My task is to try and put before you in one per a consideration of those problems which have special emphasis for the members of our Institute ho are engaged in what I have called the smaller actice. There is no definition for this phrase but I eve in mind the practice that is carried on by no ore than two partners, and in many cases by a sole actitioner. It does not necessarily follow that the nall practice consists of small clients but I think at a small practice made up of a few large clients is ceptional. Another point I must make is that the naller practice is not by any means synonymous with e rural practice. I find that there are something like o sole practitioners in Central London as defined in le Institute List of Members, about eighty in Biringham and about the same number in Manchester. tatistics which have been prepared by the Institute indicate that of all members practising in the United Kingdom no less than 19 per cent are sole practitioners, and about 23 per cent are in two partner practices. This is the limit of my definition of the smaller practice, and it must be agreed that a total of 42 per cent of all practising members is a very significant proportion. There are those who would perhaps go further than I do and suggest that three or four partner practices can also be defined as small. These represent an additional 30 per cent of the total. It is therefore of the utmost importance to understand that any problems of the smaller practice affect a substantial majority of the practising members of the Institute.

- 4. My approach to the subject is by way of human relationships because I am convinced that at the root of all the problems we are likely to encounter in professional practice there is a very powerful human element, and if we can understand this human element we are going a long way towards understanding the problem and getting to grips with it and finding a solution. Speaking personally, I feel that without the problems offered to us by our profession, life would become a very dull affair. Therefore the first relationship to be considered by any practitioner large or small is his relationship with himself - and here I wish to make only one point, which is that he should regard every problem as a challenge to himself, a challenge to find his own solution. For though I shall attempt to indicate what I consider are the answers to the various problems I shall discuss, it is only by self-examination that the lesson will be learned.
- 5. The relationships in which the smaller practitioner finds himself can I think be classified as follows:
  - (a) Government departments and officials.
  - (b) Other professions.

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The Accountant, September 10th, 1949.

The Accountant, October 4th, 1952.

The Accountant, December 10th, 17th, and 24th, 1960.

The Accountant, August 8th, 1953.

The Accountant, October 13th, 20th, 27th, and November d, 1956.

- (c) Other practitioners.
- (d) The Institute.(e) His clients.
- (f) His staff.(g) Himself.
- 6. It may be considered somewhat odd that I have placed the relationship with clients so far down the list, but this is not to say that it is the least important, rather the reverse. What I hope to demonstrate is that the relationship with the client is bound up with all the others. Before coming on to consider these relationships in detail and the problems which they create in so far as they are peculiar to the smaller practice, there is one fundamental point of distinction which I wish to make between the small and the large practice. That is in the nature of the work carried out regardless of the size of the individual jobs. It is simply this: that in the larger practice the accent is very much on the audit of limited companies - this I am certain forms the bulk of their work - in what proportion I am not prepared to say - it must vary from one practice to another - but it is clearly more than 50 per cent and in many cases more than 75 per cent of the total work.
- 7. In the small practice, on the other hand, auditing is certainly less than 50 per cent of the work and this proportion diminishes as the size of the practice reduces. The rest of the work of the smaller practice forms a very complicated pattern, a very large proportion of which is concerned with taxation in one form or another.
- 8. Perhaps I can put the cause and effect of this in another way. One can generalize and say that a small practice is concerned with small clients and a large one with large clients. The larger client will in the majority of cases have its own taxation department and will almost certainly be in a position to prepare its own accounts ready for production to the auditor. It will also have the necessary administrative staff to deal with problems of purchase tax, census of production and other statistics, rating and valuation, pension schemes and company registration matters, which in the case of the smaller business are passed over to the professional accountant for him to deal with. More often than not they are regarded by the client as something that should be done for the inclusive fee, whatever additional complications they may involve. Even in those cases where the taxation work is all dealt with by the professional accountant, he who is concerned with the smaller case will find that the amount of work in this connection is proportionately higher than with the larger case. It is very seldom that in two cases where the audit fee is, say, 500 guineas and 50 guineas respectively the tax work on the former involves ten times the amount of work that it does in the latter.
- 9. I have said this in order to demonstrate what must be an obvious thing to most of us; that the shape of the smaller practice is altogether different from that of the larger one. From this we come to

- another conclusion which provides an important point of distinction. Much of the work which is carried out by the smaller practice cannot be undertaken by the larger firm merely as a matter of practical policy. There is an entirely different scale of notation and tempo, if that is the appropriate metaphor, although I do not want it to be inferred from this that there should be any difference in the standard of professional performance, as I shall attempt to demonstrate later on in this paper.
- 10. It will therefore be readily appreciated that if what I have said in the preceding paragraphs is accepted it is quite wrong to suggest that in the changing world of today there is no room for the small practitioner and especially for the sole practitioner. If there were not still plenty of members of our Institute willing to accept the challenge and to carry on a one-man or a two-man practice in the face of all the problems and difficulties which they encounter, then the work which they perform would very soon pass into the hands of practitioners and others who are not qualified accountants. This would be to the undoubted detriment of the profession as a whole, and the business community in general. Whatever may be done by the giants of business we are stil likely to remain a nation of shopkeepers and a community of individualists for many generations to come. The present zest for amalgamations is regarded by many as a phase which will have its day, and although in some industries we are still seeing larger and larger groupings, there are signs that in some activities there is still a better service supplied to the public by the smaller unit. Even our nationalized industries are at last beginning to see that there is something in this, and are decentralizing some of their activities.
- 11. Perhaps this is a convenient point to express my views on what is happening in our own profession where this grouping and amalgamation tendency has been manifesting itself, doubtless prompted by the complementary process which is going on in commerce and industry. Are we right in building up thes gigantic professional empires with so many partner that multiple partnerships have to be formed in ord to circumvent the legal limits of partnership legis lation? Are we not as a profession facing a real dange that eventually this process will lead us away from the idea of individual personal service to our client on which the true professional relationship is base and which still has its being very much in the hand of the smaller and medium-sized practice? It is als pertinent to observe that empires today as in all age have a strong tendency to decline, disintegrate, and fall at the very moment when their size appears to their strength.
- 12. I am bound to refer to the questionnaire whi was sent out earlier this year for consideration by the district societies. My brief is not to discuss the questionnaire or its results. That is a matter for the Council of the Institute, but there must be some

ommon ground — many of you will have doubtless and a hand in replying to the questionnaire. What I m attempting to do is to look at the problems of the maller practice, or some of them, and to suggest ossible ways in which the practitioner himself can ackle them. But if, as a result of the Institute's indings through this questionnaire, it is possible to onvince the smaller practitioner that he is not alone a trying to solve his problems, then I have little loubt that this will lead to an improvement in his tatus, and as a natural consequence of this in the tatus of the Institute as a whole.

### Relationship with Government Departments and Officials

13. Under this heading most of us will immediately hink of Inspectors of Taxes, Special Commissioners nd possibly the Estate Duty Office, but a little effection will bring to mind other Government lepartments with which the practitioner is conerned; the Board of Trade in connection with comany registration, business names, bankruptcy, iquidations and the census of production and distrioution; Customs and Excise, the District Valuer, the Lourt of Protection, The Public Trustee, The legistrar of Friendly Societies, and the Tithe Comaissioners, to mention only some of the more bvious. There are few small practitioners who at ome time or another do not have to deal with all f these. I have already pointed out in my introducion that more of his time is occupied in work involvng these departments than in the case of the member f a larger practice, where the work often takes on a pecialist character and becomes allocated to a paricular partner or department of the firm. From this rises probably the greatest problem of all for our maller practitioner - that he must do his best to eep himself acquainted with all developments thich are likely to impinge on his practice and to eal, with a reasonable degree of competence, with Il matters which his clients may bring before him. he larger practice is or should be organized so that here is at least one partner who has a specialist knowedge of - for example - bankruptcy, friendly societies, r trusteeship, whereas so far as this kind of work is oncerned the smaller practitioner is bound to be a ack of all trades, without ever being able to obtain omplete mastery in any of them. At the very least, owever, since taxation work overshadows most of he other dealings which he has with Government epartments, he will feel compelled to make a big ffort to keep his working knowledge of taxation in ood trim, and to rely on works of reference in dealing with many of the other subjects I have included nder this heading.

14. What are the possible remedies for this probm? Quite clearly there is a point beyond which the maller practitioner cannot widen his knowledge or xperience without the risk of being completely overhelmed. On the other hand he is faced with the possibility that his standard of professional performance may begin to deteriorate. Various methods suggest themselves - amalgamation into larger units, the provision of an official advisory service operated by the Institute, and the introduction of specialist practitioners on the style of medicine and the Bar. In my view none of these provide individually either an ideal or an acceptable solution although there are considerable advantages to be gained from them all. For some reason which I find it very difficult to discover ours is a profession whose members seem to be very reluctant to seek consultation with and advice and help from their fellows. Is it because they fear to display their own lack of knowledge on a specialist matter, is it because they think they would lose status in the eyes of their clients by seeking another opinion, or do they fear that they will lose work to larger firms? I should have thought that there was very little substance in any of these fears but there seems to be no other way in which the matter can be explained.

15. Inquiries were started about the middle of last year through the district societies with a view to finding out whether it would be in the interest of members of the Institute to initiate a practitioners' advisory service and if the need were proved, how such a service should be operated. My view is that there is a need for such a service and that its main objects should be twofold, firstly to assist any practitioner in dealing with problems of an operational nature, problems arising out of his professional work, on which he either wants guidance or a second opinion, or even the services of a specialist, and secondly to provide advice and help about the administrative problems of a practice, which I shall refer to in another section of this paper.

16. We are all aware that there are ways and means of getting the kind of information and help that such an advisory service would provide but at the present time there is no form of co-ordination and standard procedure. Naturally there would have to be safeguards which would operate to prevent such a service merely becoming an idle practitioner's service, but this I think should present no difficulty. No one would expect it to be free, and it would be reasonable to assume that members could in some way make a practical contribution to the operation of such a service.

17. There is another and quite distinct problem here which falls more heavily on the smaller practitioner than on others, and that arises from what I am going to describe as the quite clearly discernible decline in the standard of performance of many Government departments. This may be due to a variety of causes arising from the same basic reason: the enormous increase in bureaucracy compared with a generation ago and the inevitable difficulty in the recruitment of suitable staff. Perhaps I may give an example or two from my own experience in order to deomstrate what I mean.

18. Within the last year or so there has been some

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criticism from Inland Revenue quarters of delay in submission of accounts and computations, and it has been said that the lists of cases for appeal before the District Commissioners are increasing in length, largerly due to the greater number that are brought on for hearing because of delay in getting accounts in support of appeals against estimated assessments. I have discussed this criticism with a number of Inspectors of Taxes from various kinds of districts and I have so far found none who are prepared to say that such conditions are deteriorating. It is important to note that the statement is a generalization and makes no distinction between the various classes of appellants and the agents who represent them.

19. For my own part over this question of time spent on appeals procedure I have kept a careful log of assessment notices with which I have dealt personally during the months of November and December in the last few years. I have classified the results under the following headings, and the percentages of the total are more than an interesting commentary:

Per cent of total (a) Correct assessments following submission of accounts, computation and 40.6 (b) Provisional or estimated assessments by reason of no accounts or return or (c) Incorrect assessments following submission of accounts, computation and return .. 32.8 . . (d) Incorrect allowances or reliefs following submission of return 15.3 (e) Incorrect calculations on assessment notice ...

20. The above statistics only refer to assessments under Schedules D and E and surtax. They do not include Schedule A demands issued at the same time, in which the percentage of errors is even higher. Now the amount of time which is spent in the smaller practice in dealing with matters of this kind is very great indeed at particular seasons of the year, and I wish to be quite emphatic that the figures I have quoted are in no way exaggerated — in fact they rather understate the problem because they do not include errors arising on amended assessments issued in substitution.

21. Another matter giving rise to a similar cause of friction and frustration, comes from the apparent failure of the Inland Revenue to adopt an attitude of tolerance with regard to relatively insignificant points in examining accounts and computations. I could give scores of examples of questions asked in connection with the accounts of small clients which can only be described as absurd, but which cumulatively become very tedious – it may be that they figure somewhere in the instructions issued for the guidance

of junior inspectors of taxes. To be asked to give an analysis of repairs where the expenditure runs into thousands of pounds is reasonable enough – most of us would probably supply a schedule of this in any event, but to have the same question put in a case where such expenditure is £20 or so, can only bring the Revenue into disrespect. For the small practitioner who has to deal himself with every computation and the correspondence arising thereon in detail, any unnecessary query and its answer merely increase costs which he cannot pass on to the client and are a drain on his time which he can ill afford.

22. Time and space do not permit an exhaustive examination of all the problems that face the smaller practitioner in his relationship with Government departments, but there is just one other matter in connection with the Inland Revenue which I am sure is largely outside the experience of the larger practice. I refer to the kind of inquiry which very often follows the transfer of a case to a chartered accountant from elsewhere. This frequently seems to provide the inspector of taxes with the opportunity of asking a great many more questions on a set of accounts than he may have done previously and I am tempted to think that it is more than a coincidence that this happens just when the taxpayer has decided to transfer his affairs to a chartered accountant. I cannot ignore the possibility that the inspector considers that he may get such questions answered with greater care and veracity than before. The trouble is aggravated in those cases where the questions asked relate not only to the year under review - but to earlier years. The remedy seems obvious - that if the Revenue could be persuaded to put these same questions to the previous accountant - and press the matter to a conclusion - then life would be a little more tolerable for the small practitioner who is striving to maintain a standard.

23. I do not want to suggest that in dealing with bureaucracy the larger practice experiences any less virulent form of frustration but what I am trying to demonstrate is that its area of fall-out is very much wider and the effect is less concentrated. What is perhaps more important is that the difficulties of dealing with Government departments are taken of by the particular partner or department of the firm which is especially staffed and equipped for that purpose — and that many of the matters which in the smaller practice are dealt with by the firm on behalf of the client, are at the other end of the scale handled by the client who may be better equipped for doing so than the professional accountant.

24. In general terms the obvious remedy for the kind of problem seems to be a policy of simplification of law and procedure, especially with regard to taxation, since that is where the greatest volume of fruitless effort lies — but the same could be said for most if not all of the dealings with other Government departments. There is a tendency to regard our profession as having something of a vested interest in the

complexities of taxation. I have even heard it expressed by some of our own members that simplification and reduction of taxation would lead to a loss of work. If this is true then I for one would welcome it because it would provide the practitioner, whatever the size of his practice, with a splendid opportunity for replacing the negative pursuit of fleeting taxation advantages for his clients, by the positive policy of being able to devote more of his professional time to giving them constructive advice and help about the efficient management of the financial side of their businesses

25. In this connection it is sometimes forgotten how much work which might well be carried out by Government staff is in fact done by the accountant in practice, because it takes too long to wait for the other side to act, or it leads to an unsatisfactory result when this happens, or because the client feels he is getting a better deal if the accountant does it. I refer to the following examples: the preparation of Schedule D tax computations, capital allowance claims, the calculation of income tax repayment claims, the preparation of dividend schedules, and the settlement of P.A.Y.E. queries, to mention only a few examples. No one will deny that such affairs bear more heavily on the small practitioner.

26. So I will put this as a question which I hope will supply material for discussion. Are we as a professional body using our knowledge, experience and ability to the best advantage with a view to securing a greater administrative and legal simplicity not only in our system of taxation but in all other processes of central and local government with which we are concerned? I have little hesitation in saying that a successful campaign of this kind would do us as an Institute far more good than all the efforts of a publicity committee.

### Relationship with Other Professions

27. The next type of problem facing the small pracitioner is that which arises as a result of his relationship with other professions. Here he will find himself in a completely different world from that in which is larger brethren are operating. In referring to other professions I have in mind mainly solicitors, auctioneers, valuers, property agents and insurance prokers with whom the small practitioner and his clients ire frequently in contact. Perhaps we can include the rustee and tax departments of banks, and quasiprofessional and official organizations such as the National Agricultural Advisory Service, trade associaions, and chambers of commerce, many of which offer to give advice and service in connection with accounts, taxation and other related matters. All these o which I have just referred, to a greater or lesser legree, deal with some of the work which is perormed by practising accountants, and in many nstances it would be difficult to establish a frontier vhere the province of the one ended and that of the other began - this is surely one of the real problems acing the advocates of registration of our profession.

28. The small practitioner finds himself in almost daily contact with people in these groups and it is a constantly repeated plea on his part that because many of them perform work or services which he regards as his own field of activity, there should be some form of control so that this work could be reserved to him. I doubt whether the impact of this kind of problem on the larger practice means anything at all. Once again it is a question of size and the relative importance of the work concerned. I have actually heard it stated by a member of a large firm of chartered accountants that he did not reckon to dabble in farm and estate accountancy, such work was far better left to estate agents and agricultural valuers who had more experience in it. I am firmly of the opinion too that it is of little consequence to a large firm if a bank deals with personal tax repayment claims at two or three guineas a time, whereas to a small practitioner, the prospect of facing the loss of such work to a body corporate which is not precluded from advertising its willingness to carry it out, can be a very serious matter indeed.

29. The other side of the coin is that there are many small practitioners who themselves carry out work which could more strictly be described as falling within the sphere of other professions. I think it is possible that from time to time we have all met examples of accountants in practice doing work which involves giving legal advice, performing valuations which are more strictly the province of the valuer, and acting in the capacity of stockbrokers and insurance brokers. I am not necessarily suggesting that when they perform such work they do not give good advice or service, or indeed that there is anything legally or morally wrong in doing so. What I am suggesting, however, is that the chartered accountant in practice is on dangerous ground when he takes it upon himself to perform such services for he accepts the responsibility for the consequences of his actions. And he is surely placing himself at a serious disadvantage if he points a finger at others accusing them of invading a professional province which he regards as his own. This is a problem which the small practitioner would be advised to study with great care. I am greatly impressed here by the observations made on this subject in this Hall a year ago by. Mr A. B. Snow:

'I have never reconciled myself to the principle that a professional accountant may properly receive commissions from an insurance company with whom he has placed his client's business... the accountant's reward for his advice is the professional fee which he receives from his client, and the receipt of a sum of money from a third party (either in substitution for the fee or in addition to it) is surely something which is repugnant to a professional relationship.'

30. I, too, find it very difficult to reconcile myself to the principle of accepting or sharing commission on clients' business either with an insurance company or a stockbroker. There is no doubt of course that the small practitioner will on many occasions be requested by his clients to provide this kind of advice or service, and the temptation to act accordingly will be a very strong one, but I think that he would do well to reflect that on many such occasions he may be performing a greater service to his client if he persuades him to consult the appropriate professional expert. This too will have its obvious temptations but the Institute's fundamental rule on the sharing of remuneration is so clear as to need no comment from me.

31. I feel certain that if the small practitioner were to regard this problem as one where the maxim 'Do as you would be done by' provided the appropriate guidance he would soon find that his neighbours in other professions would begin to respect his attitude of independence and impartiality and would themselves reciprocate. It seems faily obvious that an insurance broker would be unlikely to recommend any of his clients to go to an accountant who openly carried on an insurance agency business, any more than a solicitor would send his client to consult an accountant who was known to dabble in legal business. Therefore may we once again regard this problem as one primarily of human relationships, and if we set a good example others may well follow and custom may take the place of regulation and leave our position stronger in consequence.

32. As a demonstration of what I have said I quote from a news letter published by a firm of insurance brokers:

'Many farmers make up their annual accounts to Michaelmas or the end of the calendar year, and the present is therefore an appropriate time to consider the objects for which the accounts are prepared. These are:

(a) To provide information as to the financial results of the year.

(b) To enable the farmer to compare his results with previous periods and with other information and to see whether or not he is operating his farm as efficiently as possible.

(c) As a basis for the assessment of income tax.

'A limited company carrying on a farm business or any other trade is required to keep proper books of account, but there is no such legal provision affecting the farmer who carries on business in his own name or in partnership. Obviously if proper books are not kept then it is very difficult to prepare adequate accounts. The books need only be quite simple so long as they give all the necessary information, and the cost of preparing farm accounts in an adequate and informative way is comparatively small, certainly the cost will be very much more than repaid by the extra information which will be available, and which should, if properly used, lead to better profits.

"The proprietor of a business is usually anxious to have his accounts prepared immediately after the closing of his financial year, and this is most important if the accounts are to be of any use to him. However, many farmers seem to be satisfied with accounts which are not completed for a year or more, and we recently came across a case where the accounts for

1958-59 had not yet been finalized. There is no excuse at all for this sort of delay and the farmer should insist on having his accounts prepared promptly and in a proper form. The agricultural industry is better supplied than any other with standards and costing information, and a comparison of actual results with some of the figures available can be very interesting and instructive.

'In farming today it is becoming more and more difficult to make a satisfactory profit and no farmer can afford to overlook any steps which would help him to improve his position. If the accounts are not kept right up to date then the farmer can be horribly misled as to his financial position, sometimes with disastrous consequences. Any chartered accountant would be pleased to advise as to satisfactory and simple methods of book-keeping and would see that the accounts were prepared in the best possible manner.'

(To be continued.)

### Weekly Notes

### ALTERNATIVES TO THE COMMON MARKET FOR BRITAIN

RECENT news from Brussels on the negotiations over terms for Britain's entry into the European Economic Community has undoubtedly hardened some British opinion against the Government's policy. A similar reaction seems to have been experienced by Professor Meade, whose Hobart Paper No. 17, of last April, has now reappeared in revised and expanded form. Recent developments are reviewed and the author is concerned at the E.E.C.'s trend towards discrimination in trade, which would keep out 'Australasian foodstuffs and Indian textiles in order to protect high-cost European producers'.

With these doubts in mind, Professor Meade examines the alternatives for Britain. The Government could seek American co-operation in the building of a North Atlantic free trade community if Britain joined the E.E.C., a policy which is practicable in view of the passage of recent United States trade legislation, although this legislation brings pressure to bear upon Britain to join the E.E.C.

A second alternative would be to reverse unilaterally Britain's present protectionist trade policy, but this would be fraught with the dangers of cheap imports straining the country's balance of payments and possible devaluation. Such a policy would be possible only within the context of world co-operation which Britain's initiative might encourage.

Finally, the United Kingdom could seek to bargain with the various world trade groupings to obtain the best possible terms for the Commonwealth and the

<sup>1</sup>United Kingdom, Commonwealth and Common Market: A Reappraisal. Price 6s. Section entitled 'The Common Market: Is there an alternative?', available separately, price 3s. The Institute of Economic Affairs, 66A Eaton Square, London SWI.

European Free Trade Area, subject to the overriding provisions of the General Agreement on Tariffs and Trade, with the object in the longer run of eliminating tariffs and other forms of discrimination.

The successful implementation of any of these policies is dependent, states Professor Meade, upon the formulation of an effective incomes policy which cannot be restricted to wages. This might be achieved, he suggests, by a reform of the tax system and a redistribution of wealth.

### LACK OF COST CONSCIOUSNESS

In a luncheon address at the recent London Cost Conference of The Institute of Cost and Works Accountants, noted in last week's issue, Lord Robens, Chairman of the National Coal Board, said that this year for the first time for a number of years the Board will make a profit. And this, he declared, was more attributable to their accountants than to their engineers, for accountability has been the keynote and in a vast industry like theirs with a turnover of nearly £1,000 million a year, 'a very slight improvement in efficiency in terms of cost makes a difference in our balance sheet of several million of pounds'.

Lord Robens said that, in his view, there was a lack of cost consciousness in Britain. This manifested itself everywhere. While he welcomed the idea of Britain's entry to the Common Market, it should be remembered that joining the Market was not a panacea for the problems of exporting. It would open a door for wider opportunity for British exports, but it would also enable the sharp probe of competition to come in. It was, however, in the field of cost that the greatest contribution could be made in the shortest time.

If Britain was going to increase her exports as she needed to, went on Lord Robens, not only production costs, but every cost between the point of production and the point of final delivery, where often great economies and savings could be made, required to be thoroughly examined. It was in this field, therefore, that the cost accountant had to play his part.

### NO MORE HALFPENNIES?

THE abolition of the halfpenny is forecast by Mr J. H. James, Deputy Master and Comptroller of the Royal Mint, in his annual report published last Tuesday. No halfpennies were minted last year—the first time since the present bronze coinage was introduced in 1860. Mr James says that he is fairly certain that the useful life of the halfpenny is nearing its end.

The report contains a brief outline of the history of the application of decimal reckoning to coinage and of the controversy on this subject in the United Kingdom, and also records that the Mint has complied with the request of the Austrian Government that the Vienna Mint should regain its monopoly in the minting of Maria Theresa thalers – large silver coins which are widely used for trade in the Middle East. Thalers had been struck by the Royal Mint since 1936 after Austria had given up her monopoly to Italy, and British traders had found difficulty in obtaining supplies.

In 1961, 836 million coins were produced – an increase of 127 million over the previous record of 709 million in 1959. United Kingdom coinage struck during the year totalled 298 million pieces and of the 217 million cupro-nickel coins struck, 111 million (more than half) were sixpences. Pennies were minted again, the first since 1953. Overseas work comprised over 64 per cent of the year's output, with coins of seventy-seven different denominations going to twenty-five Commonwealth and foreign countries, including Burma, Dominica, Greece, Iceland, Jordan, Kuwait, Libya, Muscat, New Zealand, Nigeria, Uruguay and Viet Nam.

### PROFITS TAX AND FRANKED INVESTMENT INCOME

THE High Court has rejected an argument by the Inland Revenue that the Finance Act, 1947, gave them the right to tax income twice over. The rules for computing profits for profits tax purposes are contained mainly in the Fourth Schedule to the Finance Act, 1937. Paragraph 7 (1), as amended in 1947, excludes from charge, inter alia:

'income received directly by way of dividend or distribution of profits from a body corporate carrying on a trade or business to which section 19 of this Act applies'.

Such income is called 'franked investment income'. The Revenue contended that this meant that the company paying the dividend must still be carrying on the trade or business at the time it paid the dividend; otherwise the dividend was not franked investment income.

The Revenue had assessed a company for the three months ended March 31st, 1956, on the footing that two dividends received by it on March 31st, 1956, from two wholly-owned subsidiaries should be included in the profit, notwithstanding that these dividends were received out of trading profits. The grounds for this double assessment were that the subsidiaries had already ceased trading; one in November 1954, and the other in October 1955. One subsidiary had never paid profits tax, its profit never exceeding £2,000; but the other had paid profits tax in respect of the profit used in paying the dividend to the parent. The Revenue argued that the subsidiaries were not 'carrying on a trade or business' within the meaning of paragraph 7 (1). They admitted that this meant double assessment, but said that they would normally give concessional relief in a bona fide case but not, for instance, in a dividend-stripping case.

Giving judgment in the case C.I.R. v. Clifforia Investments Ltd, Mr Justice Ungoed-Thomas said it would be intolerable that if the words did involve

double taxation the Revenue had a right to disregard and overrule the Legislature. A better interpretation was that put forward by the company, viz. that the exclusion applied where the paying company was carrying on a trade or business at the time the profit accrued to it, out of which the dividend was paid. He dismissed the Revenue appeal accordingly.

### EUROPEAN PATENT LAW

WHETHER or not the United Kingdom joins the Common Market there will be considerable interest in this country in the draft of a convention for a European Patent Law which has been prepared by a study group set up by the Six. Although the draft has not been finally cleared by the study group or by the Commission of the European Economic Community, the Board of Trade has prepared a

translation in English which is available from H.M. Stationery Office and the Patent Office, price 5s (by post 5s 5d).

A system of European Patent Law is envisaged, capable of existing alongside the national systems. Except, however, during a transitional period it would not be possible for any person in the territories of the member states to hold both a national and

European patent for the same invention.

It is proposed that patents should be granted for products including chemical products as well as processes, and the right is included to prohibit the importation of a product made by a patented process outside the Community. The draft proposes the establishment of a European Patent Office and describes in detail the method of application for European patents and the requirements which must be satisfied before such patents would be granted.

### This is My Life . . .

by An Industrious Accountant

CHAPTER 148

OUR new wing opens into the ladies' dress-goods section on the ground floor. When the old wall was finally demolished, there was quite a mess of dusty rubble, wooden planking and buttressing, and heavy scaffolding. We got it cleared up as quickly as possible, but the builders' men were coping with final odds and ends for quite a while.

The insurance man responsible for our public liability came along for a chat, so we went off to inspect the scene. If a piece of brick should fall and injure an industrial merchant prince, or even a humble member of our staff, said our professional harbinger of disaster-to-come with apparently considerable relish, we'd be in for trouble up to the hilt.

We wouldn't really, I thought. We had arranged early on to cover this contingency thoroughly; our contractors had been asked to extend the amount of their own public liability policy appropriately and to bracket our name with theirs in the policy wording. They'd agreed, reasonably enough. We were trying to reckon the maximum possible liability should the whole building collapse during a crowded Saturday shopping spree, when I felt a sharp tap on my shoulder. 'One moment, my man,' said a high-pitched peremptory voice.

'I beg your pardon, madam,' I replied with old-world courtesy, which never comes amiss with our store's elderly customers. Then I recognized her and my heart sank. It was our ancient bête noire, that overaffluent dowager ominously nicknamed Lady Macbeth who was lately returned from foreign travelling. 'Could I possibly obtain a little attention, IF you

please?' she continued with considerable acerbity. 'After all, I do give your establishment a fair share of money over the years. Perhaps you could show me some of these flecked worsteds.' It's typical of this irascible lady that she affects not to recognize any of us at first meeting, a gambit that has unnerved better men than I over the years.'

In my preoccupation with the hazardous scaffolding, I'd failed to notice that our assistants were swamped with the pre-Christmas shoppers. The aisles round the stands, draped with sweeping folds of colourful materials festooning down from the overhead racks, were packed. I looked round tentatively at our nearer girls; they saw Lady M. and all avoided my eye.

Lady M. attacked again and I explained that I was not permitted to help her. 'Nonsense, absolute nonsense,' she barked. 'Summon the managing director at once.'

"The counter-staff are clearly two-deep with customers," I observed blandly and the termagant glared fiercely under her leopard-skin cap. 'I insist on service,' she announced. She spied some chairs nearby and sat down majestically. After all, these skirmishes really make her day; she enjoys a fight and has all day to protract it.

'What name shall I say?' I inquired maliciously, but she jumped up with a shriek. 'My coat is ruined! Your chair was filthy, you'll have to replace it!' To my horror, her gorgeous mink was white with dusty flakes; they must have sifted down from the broken wall.

She was giving me both barrels at full blast when our efficient insurance man intervened. He sat deliberately on the adjoining chair, then rose with a snowy seat. Some smart smacks (a procedure scarcely feasible for me to have adopted with Lady M.) displaced the dust entirely, and the equally nebulous grounds for the customer's claim vanished simultaneously.

## Finance and Commerce

### No Audit

NO fee, no audit. That was the position presented recently to shareholders in The Bestwood Co Ltd which is generally described as an investment and industrial holding concern. The company did what it could under the circumstances by providing shareholders with a draft consolidated balance sheet and a report giving, among other things, trading results with the notice convening the annual general meeting. The company's situation was explained by the chairman, Col C. G. Lancaster, in the report.

He pointed out that the meeting was to comply with the requirements of the Companies Act and reminded shareholders that the Westminster Bank appointed a receiver and manager of the company on August 22nd, 1961, so that for the greater part of the period since the last annual meeting, the company had been managed by the receiver, Mr F. S. McWhirter, C.A.

It was not possible, he said, to arrange for an audit of the accounts of The Bestwood Company and its subsidiary, Plowright Brothers, for the year to December 31st, 1961, because the receiver was not in a position to release funds for this work to be carried out. Two other subsidiaries not affected by the receivership had their accounts audited. The statement setting out group net assets, said Col Lancaster, was based on unaudited internal accounts.

### Reconstruction

At the meeting, the chairman referred back to the credit squeeze and the bank's appointment of the receiver who, he said, found himself in the position of being unable to release money to pay for the audit. Mr McWhirter added that it was not just a question of getting the bank to agree to release the necessary money; there were other unsecured creditors to be considered. Actually, he saw no reason why the bank should not be repaid in full. He was anxious that shareholders should receive audited accounts as soon as possible and maybe after what had been said at the meeting, it was possible something could be done.

As might be imagined, lack of audited accounts provided a grievance for the shareholders who made it their chief discussion point. They wanted audited figures as soon as possible. In sum total, it is one of those extraordinary situations that has to be left to the goodwill of the parties concerned.

Col Lancaster thought the receiver's work should

be completed some time next year, after which reconstruction of Bestwood's activities would have to be considered. Broadly, preference shareholders' interests appeared to be intact and those of the ordinary shareholders to the extent of about two-thirds.

### **Hard Going**

The Bestwood Company's principal investment is its interest in Plowright Brothers Ltd, a company making and erecting heavy plant and machinery used by collieries. Most companies in that line of business have found the going difficult. The Coal Board has been driving hard bargains.

The receiver for Plowright has reported that it has not been possible to find a suitable purchaser for the business as a whole but arrangements have been made to sell about a third of the works premises and the goodwill of the business. It has been possible to complete very substantial contracts to which the company was committed, and thereby, the company has avoided claims against it which might have been extremely onerous if the contracts had not been fulfilled.

Substantial retention moneys will remain outstanding for the greater part of 1963 and not until some time towards the end of next year will the final position concerning the company emerge. Meanwhile, there is still a considerable proportion of Plowright's fixed assets to be realized.

### Long Ago

In days now long ago, this column confused its double-entry. It called a debit a credit – or vice versa. A reader sarcastically pinpointed the error, and this column, blushing with shame, wrote explanation at great length. Its effort, however, was stifled at birth. The master hand slipped paper into machine and laughingly dismissed the whole affair as of no great consequence. Even Homer was known to nod, he wrote. And that is how it appears in the bound volume of *The Accountant* of that time.

Despite all the checking, human frailty results in errors getting through – right through to the printed and published accounts – and, it is to be feared, someone somewhere is severely reprimanded.

But what can be done when accounts in share-holders' hands awaiting acceptance at the meeting are found to contain error? There is nothing laid down, but for those who have yet to face this awful position, a notice to shareholders drawing attention to the error and saying: 'for this, read that', is, in practice, deemed sufficient.

A classic example of the work of the gremlin appeared in the prospectus of the £3 million issue by Forte's (Holdings): 'The first payment of dividend on the (7 per cent) Preference shares will be made on January 31st, 1963, calculated from October 11th, 1962, and amounting to £1 6s 6d less income tax per share'.

### THE ACCOUNTANT

### THE BESTWOOD COMPANY LIMITED Draft Consolidated Balance Sheet at 30th June 1962

No provision has been made in the above statement of net assets for the professional and other costs of the receivership.

				Cfollowed the		
		20 6 62	21.12.70	ment re-expansi		
Fixed Assets:		30.6.62	31.12.60	the 'little gene		
Freehold Properties	£390,042			Government wi		
Less: Mortgages secured				re-expansion po		
on Freehold Pro-	11,252			If the investor		
perties	£378,790		£403,858	are going, his in		
Leasehold Properties	64,522		66,412	is to be increase		
Plant and Machinery	216,0117			compiled jointly		
Furniture, Equipment and	10100	•	380,436	London, the Fa		
Motor Vehicles	124,249			The Financial T		
Patents and Manufacturing Rights	14,929		22,253	The main gro		ces comprise
		£798,501	872,959	industrial ordin		
Goodwill of a subsidiary com-		•		subsections. A		
pany		65,000	<i>\$5</i> ,250	covering forty-t		
t	•			fixed interest sec		
Investments:				covering 693 sec		
Quoted Investments	289		289	Provided dail		
Unquoted investments	12,532		12,532	changes and also		
		12,821	£12,821	in each subsecti		
		876,322	941,030	investor from b		
Current Assets:	•			the wrong time		
Stock and Work-in-Progress	£622,231				<b></b>	
Less: Progress Invoicing.	465,865				RATES AN	
Sundry Debtors less pro-	156,366		463,118	Closing price	es, Wednesda	y, November 2
vision for bad debts	683,343		458,848	Tax Reserve C	ertificates:	(interest rate)
Income Tax Recoverable	37,290		48,469		Bank	Rate
Cash at Bank and in Hand	265,170	•	8,396	Oct. 27, 1960	5½%	Nov. 2, 1961
	1,142,169		978,831	Dec. 8, 1960	5%	Mar. 8, 1962
	···			July 26, 1961	7%	Mar. 22, 196
Commone liabilisions				Oct. 5, 1961	6½%	April 26, 196
Current Liabilities:					Treasu	ry Bills
Sundry Creditors	869,943		554,880	Sept. 21 £3 1.	45 0.01 <i>d</i> %	Oct. 26
Current Taxation	17,148		500 527	Sept. 28 £3 1:	25 8·42d%	Nov. 2
Bank Overdraft	536,230		509,537	Oct. 5 £3 1:	2s 4·13d% 2s 3·07d%	Nov. 16 £
	1,423,321		1,064,417		4s 8·22d%	Nov. 23
Net Current Liabilities		281,152	85,586	, 20		_
Net Assets		595,170	855,444	Dow to dow	Money	Bank Bills
Less: Future Taxation		18,500	033,444	Day to day 7 days	2 <del>1</del> 3 <del>1</del> % 2 <del>1</del> 3 <del>1</del> %	2 months
				Fine Trade Bills		3 months
•		£576,670	£855,444	3 months	51-6%	4 months
				4 months	51 6%	6 months
Represented by:				6 months	$5\frac{3}{4}-6\frac{1}{2}\%$	
6% Cumulative Preference						xchanges
Shares	£150,000			New York	2·80 🔒	
Ordinary Shares	390,000	£540,000	£540,000	Montreal Amsterdam	3.01 <del>∏</del>	Milan Oslo
Capital Reserve		68,924	68,924	Brussels	139.44½	Paris
Capital Reserve on Consoli-				Copenhagen	19·36 <del>1</del>	Zürich
dation Interest of Minority Share-		71,085	71,085		Gilt_c	edged
holders	•	97,769	99,565	Consols 4%	68 <del>1</del>	Funding 3%
Provision on account of Staff	-	•	-	Consols 21/8	43 <del>₹</del>	Savings 3%
and Works Pensions		6,000	13,699	Convision 51% 1	974 100 1	Savings 3%
Less: Debit Balance on	•	783,778		Conversion 5% 1	971 1002	Savings 21%
Profit and Loss				Conversion 31%		Treas'ry 5½%
Account		207,108	62,171	Conversion 3½% Exchequer 5½% I	59 <del>\$</del>	Treasury 5% Treasury 3½
		£576,670	£855,444	Funding 5½% 82	-84 101 <del>1</del>	Treasury 3½
	•	-		Funding 4% 60–	90 93 <del>1</del>	Treasury 21
No provision has been made	. In the characterist			Funding 21% on	-04 68	Victory 4%

### CITY NOTES

REEPING confidence in the equity markets has ther Governtable following and that the the results of

nt where prices ices have been indices to be Actuaries in Edinburgh and

es a 500-share led into thirty x and indices s and fifty-six provide indices ty subsections.

ow day-to-day dividend yields ill prevent the vrong share at

28th, 1962

e) 25·8·62 2½%

Oct. 27, 1960 $5\frac{1}{2}\%$ Dec. 8, 1960 $5\%$ July 26, 1961 $7\%$ Oct. 5, 1961 $6\frac{1}{2}\%$	Nov. 2, 1961 60 Mar. 8, 1962 51 Mar. 22, 1962 50 April 26, 1962 419	%							
Oct. 5, 1961 6½%  Treasur		<b>′</b> 0							
Sept. 21 £3 145 0 0 1 d% Sept. 28 £3 125 8 42 d% Oct. 5 £3 125 4 13 d% Oct. 12 £3 125 3 0 7 d% Oct. 19 £3 145 8 22 d%	Oct. 26	% %							
Money Rates									
$\begin{array}{llllllllllllllllllllllllllllllllllll$	Bank Bills 2 months 3 18-4% 3 months 3 18-4% 4 months 3 18-4% 6 months 3 18-4%	%							
Foreign Exchanges									
New York         2.80 %           Montreal         3.01 %           Amsterdam         10.09 ½           Brussels         139.44 ½           Copenhagen         19.36 %	Frankfurt       11-22         Milan       1740         Oslo       20-01         Paris       13-73         Zürich       12-02	1214							
Gilt-e	dged	4							
Consols 4% 68½ Consols 2½% 43½ Conv'sion 5½% 1974 100¾ Conversion 5½% 1971 100½ Conversion 3½% 1969 92½ Conversion 3½% 59½ Exchequer 5½% 1966 102¼ Funding 5½% 82-84 101¾ Funding 5½% 60-90 93½ Funding 3½% 99-04 68 Funding 3% 66-68 91¾	Funding 3% 59-69 96 Savings 3% 60-70 87 Savings 3% 65-75 81 Savings 2½% 64-67 91 Treas'ry 5½% 2008-12°96 Treasury 5½% 86-89 91 Treasury 3½% 77-80 79 Treasury 3½% 79-81 79: Treasury 2½% 43: Victory 4% 97: War Loan 3½% 59:								

### Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

### Changes in the Purchasing Power of Money

SIR, — In his letter in your issue of November 24th, Mr Broster gave the example of a machine bought for £1,000 but requiring £2,000 for its replacement, the funds for this purpose being accumulated by purchases of bonds maturing on the replacement date. In such a transaction he questioned the need for any accounting recognition of change in the purchasing power of the bonds.

In answer to his question let us assume (a) that the original machine was bought out of equity capital; (b) that the additional £1,000 required for its replacement was provided from revenue receipts; (c) that the doubled cost of replacement resulted from a halving in the value of money over the period (represented by a rise in the general price index from 100 to 200); and (d) that trading profit is arrived at after charging depreciation on historical cost.

Under traditional accounting the £2,000 of replacement funds would then be shown to have been derived from the following sources:

8				·£
Equity capital				1,000
Retained profit:				
Cash income	•: .		2,000	
Less Depreciation of	origina	al		
machine	•••	• •	1,000	
				1,000
			_	^
			-4	,2,000

This presentation leads the proprietor of the business to suppose that he has earned £1,000 of net income, despite the fact that none of this can be drawn out without harm to the business and that even with its retention the business will be no better equipped than it was when it started.

In contrast, recognition of the change in the value of money in the way which Mr Parker proposes would give the following picture:

Equity capital: Amount originally subscribed	£ 1,000	£
	===	
Current purchasing power thereof Retained profit:		2,000
Cash income		
Less Depreciation of machine	1,500	
Trading profit	500	
vested in bonds •	500	
	—	Nil
	-	

This alternative presentation (based on maintenance of the real capital of the undertaking) not only discloses the effect of the change in the value of money on the trading result but demonstrates the adverse consequences – to the extent of eliminating the whole of the trading profit – of investing equity capital in bonds of a fixed monetary amount.

Mr Broster will appreciate that it is not the bonds which need 'revaluing' but the capital which they represent; it is the restatement of the latter at its current purchasing power which throws up the loss (or gain) attributable to holding the bonds. He would be right in saying that no such loss or gain would accrue to the equity from holding bonds to the extent that they are matched by a corresponding monetary liability; for to that extent the bonds and the liability counterbalance and the net investment of equity capital in money is nil.

Yours faithfully,

REALIST.

### Decimalizing the Currency

SIR, - Nobody has yet mentioned the very important question of future comparisons against pre-decimalization figures.

If the £1 unit is retained, as I fervently hope, for the prestige of 'Sterling', then there would be no difficulty in comparing significant amounts, as at present, to the nearest £1.

Also, when retail price tickets have to be changed over, there would be much less confusion among shoppers if the £ unit remained unaltered.

I would, therefore, suggest a variation of the old saying, viz., 'Look after the £ and the decimals will take care of themselves'.

Yours faithfully,

Southwick, Sussex.

L. E. LESLIE.

### General Store: Gross Profit

SIR, – In reply to 'Edwin' (November 17th issue) I deal with a number of village general stores' accounts and the following details of two of them, which I have chosen because of the excellent records maintained, may be of interest to him:

(i) Turnover £12,000. Gross profit percentage on sales for the last two years: 14.9 per cent and 16.1 per cent.

(2) Turnover £17,000. Gross profit percentage on sales for the last two years: 13.2 per cent and 13.8 per cent.

In the first case, the business is extremely well-run, great accent being placed on buying on the best possible terms and avoiding as much waste as possible, particularly on the perishable items. I would consider, therefore, that the gross profit percentage earned on sales in this case is extremely good and would be rather above the average.

The second example quoted probably gives a more average picture of the expected gross profit percentage to be earned on sales by such a business.

Yours faithfully,

WINED.

### Taxation and the Common Market

### USEFUL TWO-DAY CONFERENCE IN LONDON

A two-day conference on Taxation and the Common Market was held in London on Thursday and Friday of last week. Sponsored jointly by the Federal Trust for Education and Research and the U.K. Branch of the International Fiscal Association, the conference was attended by over two hundred and thirty delegates representative of British industry and commerce. There were also representatives from the Inland Revenue; the German Federation of Industry; the Department of State, Washington; the Department of Finance and Revenue Commissioners' Office, Dublin; the States of Guernsey; the Swedish Institute of Foreign Law; and the École Supérieure des Sciences Fiscales, Brussels.

### Can Direct Taxes be Shifted?

Professor Alan Peacock, Professor of Economics, University of York, gave the opening talk on 'The Future of Taxation'. He referred to the present controversy on the correct balance to be adopted between the burdens of direct and indirect taxation, and he did not altogether accept the view that direct taxes were harmful to incentive. One of the arguments against direct taxation was that it was in any case shifted on to the price of products. He agreed that probably the profits tax could in certain circumstances be passed on by manufacturers in the price, but he wondered whether, if competition was to become the feature of the Common Market that it was alleged to be, this might not prevent direct taxes being shifted to consumers. After all, most economists would agree that in a state of complete competition, it would be difficult to shift any direct taxes.

It was commonly assumed, said Professor Peacock, that because the Common Market countries at present were biased more to indirect taxation than direct, this tendency would continue. However, he did not entirely agree. As to whether direct taxes were destructive of incentive, he did not think that it was necessarily so, but he conceded that the present top rates of income tax and death duties were excessive.

On the question of harmonization, Professor Peacock said purchase tax did not come out too badly in a comparison with indirect continental taxes, provided it was adjusted to one rate and had a wider spread.

Social security provisions were bound to be agreed on a more uniform basis in the Common Market. It was probable that though British social security costs levied on employers would increase in the Common Market, this increase might eventually lead to lower labour costs if more attention to the social security of employees led to greater peace in industry. Professor Peacock said that though British benefits on pensions and family allowances were less than in the Common Market, there was a greater emphasis in Britain on voluntary pension arrangements by employers. He also pointed out that a greater contribution to social security benefits would be matched by greater benefits, and therefore the higher social security charges would not necessarily lead to a lowering of other taxation, unless it was assumed that the contribution of the State from consolidated revenue would diminish.

Professor Peacock felt that there would be no external pressure on the United Kingdom for changes in direct taxation, in view of the vagueness of the Rome Treaty on this point. Nevertheless, there would be plenty of internal pressure, especially for the lowering or abolition of profits tax. This would certainly happen if the tax on added-value was imposed as an alternative to purchase tax, and if employers' social security contributions were substantially increased.

### Direct Taxation: Investigations by Working Parties

Mr G. Heerkens of the General Problems Division, Directorate-General for Competition, E.E.C. Commission, and a secretary of the Neumark Committee, gave a review of the existing systems of company taxation in 'the Six'. He said that apart from the three subcommittees which had recently reported to the Commission on the subject of indirect tax harmonization, a working party was looking into the possibilities of harmonizing the direct tax structures and the harmonization of depreciation methods as 'tools of growth'; another working party was examining the tax problems posed by investments by third countries in the countries of 'the Six', and also the problems of the use of 'tax havens' in this context. Yet other working parties were studying problems of harmonization of stamp duties, and the taxation of insurance contracts.

There followed an address by Mr H. V. Lewis of the secretary's office, Inland Revenue, who commented on the very wide divergence between the treatment of dividends in the Common Market countries compared with the United Kingdom.

### Indirect Taxation: Will Purchase Tax Continue?

Dr J. van Hoorn, Jun., managing director, International Bureau of Fiscal Documentation, Amsterdam, reviewed the indirect tax systems of the Common Market countries and explained the basic defects of the 'cascade' or 'avalanche' non-cumulative system which was at present in existence in five of 'the Six'. He explained that no correct calculation of 'cascade' taxes was possible in the case of exporters, with the result that the effect on exports was very arbitrary.

Mr R. J. S. Cory, Chief of Intelligence Branch, H.M. Customs and Excise, pointed out that the present range of purchase tax covered about one-third of consumer expenditure in Britain, and if it was extended, the only remaining items to cover were food, services, housing and fuel. He pointed out that the November 5th amendments in purchase tax had led to a significant compression in rates.

On the subject of the harmonization of tobacco duties, Mr Cory commented that in two of 'the Six' there were Government tobacco monopolies in being, which would complicate the issue. He also noted that tobacco was at present the biggest producer of indirect taxation in the United Kingdom. There were discussions in 'the Six' on the harmonization of the duties on heavy oil, with proposals for eventual reduction to

 $\frac{1}{2}d$  a gallon. The rates in 'the Six' were at present in the range of  $\frac{3}{4}d$  to  $2\frac{1}{2}d$  a gallon; this compared with the U.K. rate of 2d a gallon. The range of duties on petrol in the Common Market varied at present from 2s 6d to 5s; the U.K. rate was 2s 9d.

#### Tax Harmonization

Professor F. Neumark, Chairman of the Fiscal and Financial Committee of the E.E.C., spoke on the subject of harmonization on the second day of the conference. His address, which is reproduced in full elsewhere in this issue, was the first official and authoritative interpretation of the report which bears his name. The general impression had been that Professor Neumark and his colleagues had adopted rather dogmatic views on the way harmonization of the Common Market tax system should develop. He showed himself, however, to be exceedingly flexible in his approach to harmonization problems and entirely conscious that the differences in national tax systems reflected national character and idiosyncracies. Professor Neumark is a reasonably accurate (though agreeably diffident) observer of the English scene, and was apt to quote English poets and philosophers on the slightest provocation. He greatly appealed to his audience when dealing with the natural conservatism of Civil Servants in the E.E.C. (and elsewhere) and their strong opposition to change. He should, indeed, be an authority on this, having been the author of some features of Turkish fiscal reform during his tenure of the Chair of Public Finance at the University of Istanbul from 1933 to 1951. It was interesting to note that his strongest comment on the English tax system was on the estate duty; he suggested that the countries of 'the Six' would not be willing to accept such high rates and that there would have to be a noticeable lowering of estate duties; any budgetary

loss could, in the Professor's view, be adjusted by an annual tax on net wealth, of, say, I per cent.

#### Problems for the Panel

The conference concluded with a question and answer session, with a panel comprising Mr A. E. Aylmer, taxation manager, Unilever Ltd, Mr R. J. S. Cory, Customs and Excise, Mr Arthur Dale, taxation department, British American Tobacco Co Ltd, Mr Alun G. Davies, chairman, U.K. Branch of the International Fiscal Association and Mr H. V. Lewis, of the Inland Revenue, and presided over by Mr Douglas Houghton, M.P. Among the interesting points to emerge from the session, was the feeling that purchase tax was a better tax than the Common Market had up to now given it credit for: and that Britain could have a creative and stimulating influence on the future of European taxes, if only the country could be linked with the present discussions before too long. Some doubt was expressed about the loss of area of manoeuvre at least on national short-term economic regulations which would follow the unifying of fiscal techniques within the Common Market.

One of the fascinating and potentially most valuable features of the conference was the fact that the Boards of Inland Revenue and Customs and Excise were sufficiently seized of the present high tide in fiscal affairs vis-à-vis the Common Market, to send official spokesmen to the conference. While the conference was conscious that the present difficult position of the United Kingdom in regard to 'the Six' was hardly the time for Government departments to be at their best at a public showing, it was appreciative of the fact that the official departments had decided to join in the public debate which will undoubtedly continue on the fiscal relations between the United Kingdom and the Common Market.

# London Chartered Accountants' Taxation Conference

Nearly one hundred and fifty members of the London and District Society of Chartered Accountants attended a residential taxation conference held by the Society at the Hotel Metropole, Brighton, from Thursday to Saturday of last week. The course was under the chairmanship of Mr D. S. Morpeth, B.COM., A.C.A. and Mr P. F. Carpenter, F.C.A., President of The Institute of Chartered Accountants in England and Wales, gave the opening address on Thursday evening. Four papers were presented, which we refer to below, each being followed by meetings of the ten discussion groups into which the course was divided.

#### Taxation in a Modern Economy

Speaking on "Taxation in a modern economy, Mr J. F. Chown stated that the general rules of economics show that consumers get the greatest satisfaction from a given income if they have the maximum freedom to spend it as they wish and the maximum range of different opportunities. The pain of taxation, said Mr Chown, must be set against the benefits of Government

expenditure, but as a general rule, centralizing expenditure will lower economic efficiency by reducing consumers' choice and damping down the process of transferring assets to more efficient uses.

The economic case for progressive taxation, Mr Chown continued, was based on disputable philosophic foundations. Where the aim is to improve the lot of those with lower incomes it seems likely that this can be better achieved by economic efficiency and growth than by redistribution. Some people argue that equality is a desirable end in itself, but it cannot be imposed by taxation under a rule of law.

An efficient tax system must obviously not destroy personal incentives. Less obviously it must not discourage the rise of new businessmen and the accumulation of new fortunes, nor the transfer of assets from less to more profitable uses. It should encourage capital investment, but not fall into the contemporary error of judging quantity rather than quality of investment and facilitating investment in plant at the expense of investment in, say, financing overseas customers.

The business man, building up from the level of profits at which surtax bites to the level at which he can go public and be safe from a surtax direction, has to run an obstacle race administered by the Revenue. The untidy position relating to capital gains taxation was an uneasy compromise between the chains of redistribution efficiency and Revenue convenience. 'We have so far escaped the dangers of the German, Belgian and other systems which place a tax penalty on liquidations and reorganizations,' said Mr Chown. 'But I would like less discouragement to public companies on distributing their profits.'

#### Organization of Taxation Work in an **Accountant's Practice**

In an address on the organization of taxation work in an accountant's practice, Mr G. H. Vieler, F.C.A., stated that it was in the field of taxation that the small practitioner, in particular, should strive to be capable of giving good advice.

He believed that as far as possible the audit staff must be encouraged to take responsibility for tax work at the accounts stage, in which case there were three classes of

audits:

(a) Those where the audit staff compute the tax provisions unaided.

(b) Those where the audit staff prepare computations for accounts purposes but these are checked by the auditing firm's tax department before the accounts are finalized.

(c) The very large and/or complex cases where it is essential that the tax department work alongside the audit staff and prepare the computations ab initio.

Every endeavour must be made during the course of an audit to prepare tax schedules in their final form so that duplication and triplication of work was reduced to a minimum. With a little forethought and cooperation from all the people concerned, it was often possible to produce computations at the audit stage, which required little or no amendment before they were submitted to the Inland Revenue.

Once an audit was complete, it became the work of the tax department to submit computations to the Inland Revenue and carry on any correspondence arising thereon. The correct policy, said Mr Vieler, was to draw up computations in such a way that the Inspector, if he were so minded, could check them with the accounts and supporting schedules and satisfy himself as to their accuracy without need for further inquiry.

Personal tax work made as heavy demands on the accountant's time as any, but unfortunately it was often by no means remunerative. The aim must be, therefore, to cut out all unnecessary work; for example with dividend counterfoils it should be possible for these to be sorted into a predetermined order with the gross amount ticked in red and then for a typist to produce

the list in its final form.

How many cases can be handled by each individual in the firm's tax department? Probably something like one hundred upwards, believed Mr Vieler, but this must depend on the complexity of the cases. It was advisable that every member of the department should have a mixture of both company and personal tax work, the proportions being dependent on the capabilities of the individual concerned.

There must be a methodical approach to work and adequate records on which to progress it throughout the year. Record cards should be kept for each client, whether company or personal, showing details of income and assessments. A list should be made of repayment claims submitted to the Inland Revenue and regular reminders should be sent in unsettled cases. The tax department should have its own separate filing system.

Referring to relations with the Inland Revenue, Mr Vieler said that these had an important bearing on the accountant's work. The average Inspector was doing an extremely competent job, often in difficult circumstances, and accountants should endeavour to ensure that the computations submitted were correct and set out in a clear and logical sequence. He was sure that a great deal of skilled time was wasted through cases having to be heard by the General Commissioners which should have been settled with the Inspector.

For good client relations, said Mr Vieler, it was important that clients be kept informed at all times. Company clients should receive copies of the agreed computations and personal clients generally appreciated a schedule of taxed income and often a complete copy of their return. Fees should be dealt with at regular intervals, even if the work had not been completed, and in the case of special work, the bill sent immediately the task was completed.

With the ever increasing volume of legislation, most accountants, declared Mr Vieler, simply had not the time to stop and consider whether they were as efficient as they would like to be. 'I am, however, guite convinced', he stated, 'that equally with a good knowledge of the subject, method and the standardization of work are our greatest allies and you will sleep a good deal more soundly by making sure they both exist in your offices.'

#### Property Transactions and the Speculative Gains Tax

Speaking on recent legislation regarding property transactions and the 1962 speculative gains tax, Mr M. Nolan referred to sections 21, 22 and 25, Finance Act, 1960, and sections 14, 23 and 24, Finance Act, 1962. All these sections contain measures designed to extend and rationalize the charge of tax upon profits realized on the disposal of land and shares, and Mr Nolan considered how far that aim was likely to be achieved. In the course of his paper he said:

Some of the worst features in Britain's fiscal laws had resulted from the series of measures designed to 'pierce the corporate veil', to override the principle that a company is a separate person. This series, now extended by sections 21 and 22, Finance Act, 1960, and sections 14 and 24, Finance Act, 1962, began with the companies surtax provisions of the Finance Act, 1922. As early as 1928, when the first batch of amendments to the original section 21, Finance Act, 1922, came before the Courts, Rowlatt, J., protested that the section 'is made perfectly unintelligible to any layman or any lawyer who has not made a prolonged study with, all his law books at his elbow, and it is a crying scandal that legislation by which the subject is taxed should appear in the statute-book in that wholly unintelligible form'. The corresponding estate duty provisions of the 1940 Act, aimed at treating the assets of the deceased's companies as part of his estate, led Lord Simonds to remark in the St Aubyn case that the relevant provisions were 'couched in language so tortuous and

obscure that I am tempted to reject them as meaning-less'.

Take section 21, Finance Act, 1960. It must be one of the most extraordinary sections ever to find a place on the statute-book. In terms it imposes tax upon a certain proportion of the proceeds derived from certain sales of shares in certain types of trading companies — in particular, property dealing companies. Pausing there one wonders why it should be more fiscally wicked to sell shares in a property dealing company than in, say a manufacturing or a commodity dealing company. It is hard to see why the shareholders in one type of trading company should be taxed under different and harsher laws than those governing the shareholders in other types of trading companies.

Nevertheless, it may be said the tax is only payable on so much of the sale proceeds as is equal to the profit the company would make by selling its trading stock; and it is only right that this proportion of the sale proceeds should bear tax since it represents a revenue gain. But since this strikes at the root of the principle—or perhaps I should say it ignores the plain fact—that the company and the shareholder are different persons, it is hardly surprising to find, in consequence, a considerable degree of confusion as to whom and in what circumstances the tax is intended to hit.

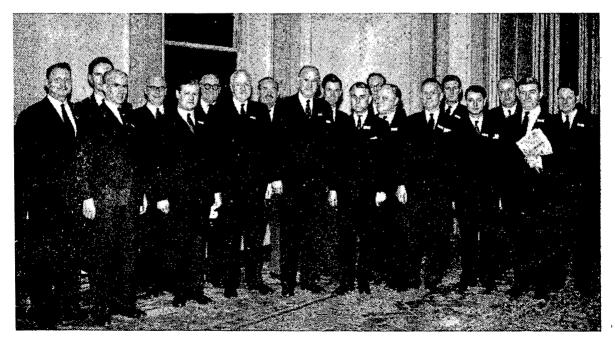
Once the tax is paid – whether by the former share-holder or by the company – the company is entitled to such relief from standard rate tax as may be just in respect of subsequent receipts from the sale or other dealing with the assets which comprised its trading stock at the time of sale. But what if the company discontinues its trade, so that it becomes taxable on a

notional profit under section 137 (1) (b), Income Tax Act, 1952? The answer, in short, is double taxation.

This is the second especially striking feature of section 21. If a man sells shares in a company which continues to carry on a property dealing trade, then either he will escape tax by satisfying the Commissioners in the terms of section 21 (2), or if he does not do so, the company will at least be relieved from a corresponding amount of standard rate tax when it sells the relevant trading stock. In this latter case the Revenue will get surtax (if appropriate) from the selling shareholder and profits tax from the company on what is effectively the same profit, but only one lot of standard rate tax. If a man sells shares in a company which ceases to trade, the Revenue gets surtax, profits tax and two lots of standard rate tax on (effectively) the same profit. Where is the justice, where is the sense in all this? What was the Legislature trying to achieve?

In section 14, Finance Act, 1962, one can see an intelligible aim. Granted that profits on the acquisition and disposal of land within three years are to be taxed (and losses relieved) it makes sense that a corresponding charge should be levied on profits from the disposal of the whole or part of substantial holdings of shares in property owning companies, in so far as those profits reflect the net aggregate appreciation in value of land acquired by the company within the last three years. There are, however, serious flaws in the section. One is that it gives no relief to the company if it subsequently sells the land within three years: here again, tax can be charged twice on what is effectively the same profit.

The trouble is, quite plainly, that the draftsmen are given insufficient time to formulate the original



ome personalities at the conference. Left to right: Mr J. A. Allen, F.C.A., Group Leader; Mr M. P. Nolan, Speaker; Mr L. Wannan, Speaker; Mr H. Gordon Smith, F.C.A., Group Leader; Mr J. F. Chown, Speaker; Mr G. R. Appleyard, c.A., Past Chairman of the Society; Mr C. V. Best, F.C.A., Chairman of the Society; Mr W. E. Lamaison, F.C.A., Mr P. F. arpenter, F.C.A., President of the Institute; Mr E. B. Palmer, B.COM., A.C.A., Group Leader; Mr D. S. Morpeth, B.COM., C.A., Conference Chairman; Mr E. C. Meade, F.C.A., Group Leader; Mr L. A. Hall, F.C.A., Group Leader; Mr G. H. Vieler, c.A., Speaker; Mr P. G. H. Evans, F.C.A., Group Leader; Mr K. H. Oates, F.C.A., Group Leader; Mr W. T. Wells, F.C.A., Froup Leader; Mr D. R. Huntingford, F.C.A., Group Leader; Mr J. W. G. Cocke, T.D., M.A., F.C.A., Secretary of the Society.

proposals; and that the Legislature is given insufficient time to consider the work of the draftsmen. If we are to have changes in our institutions, let us start by changing the present Finance Act procedure.

A fourth paper, entitled "The taxation of interest

and dividends', was presented by Mr J. L. Wannan, F.C.A., in which he surveyed procedure and referred to decided cases. The course concluded with a 'Brains Trust' under the chairmanship of Mr H. A. R. J. Wilson, F.C.A.

# KEEP EDUCATION IN STEP WITH NATIONAL TRENDS

### President's Views at Liverpool Society's Dinner

The need for the profession to keep its educational training in step with trends in national education was stressed by Mr Percy F. Carpenter, F.C.A., President of The Institute of Chartered Accountants in England and Wales, at Liverpool last Friday.

Mr Carpenter, who was responding to the toast of the Institute at the annual dinner of the Liverpool Society of Chartered Accountants at the Adelphi Hotel, said that in Liverpool the relationship between university and school of commerce was very close. Now that a number of new universities were about to be formed, he felt that such relationships throughout the country would become closer.

Mr Carpenter said it was good to see something solid being done which would improve and raise the standards of the profession. The syllabus for the new examinations had been settled and though the report of the Parker Committee had raised a number of points, he hoped that all these would soon be resolved.

Turning to local matters, Mr Carpenter said he believed that Liverpool was one of the birthplaces of accountancy as it was known today. It was on record that in 1790 there were five accountants practising in Liverpool; in 1870 the Liverpool Society was formed and, in 1880, there were twenty-nine members of the profession in the city.

He expressed his thanks to those members of the Liverpool Society who were serving on the Institute's Council. There were now four of them and they played their parts very fully.

Mr Stanley Morris, J.P., F.C.A., President of the Liverpool Society, who presided, said, in proposing the toast of 'The City and Trade of Liverpool', that such a toast was not relative to roads, office blocks, or blitzed sites but to a 'Timeless Lady'.

This 'Timeless Lady' had for generations conceived ideas, invested her fortunes wisely throughout the world and had given birth to countless thousands of men and women of Merseyside.

Mr Morris declared that Liverpool was a city of people first; trades and places second. How could the people make its future? It went deeper than asking



At the reception prior to the annual dinner of the Liverpool Society of Chartered Accountants at the Adelphi Hotel, Liverpool, last Friday. Left to right: Lord Kilmarnock, M.B.E., President of the London Chamber of Commerce; Mr Percy, F. Carpenter, F.C.A., President of the Institute; Alderman David J. Lewis, Lord Mayor of Liverpool; Mr Stanley Morris, J.P., F.C.A., President of the Liverpool Society; Mr J. Howard Bradley, F.C.A., Vice-President of the Liverpool Society; and Judge Robertson Crichton, Recorder of Manchester.

people to work harder or in asking them to put 'their backbones where they wanted their wishbones to be'.
'I believe the men and women of Merseyside require

encouragement and leadership,' he declared. 'I ask each of you to walk round your office, factory, department or shop floor once a day or once a week . . . If the men and women who work with you give you a sideways glance or don't look at you, there is something wrong which only you can put right. If they are rude to you, there is something very wrong. If they smile - say "good morning" - things are not too bad. . . .

Mr Morris said they should ask themselves what steps they were taking to train adequate and efficient staff to compete with the specialist age of the future.

He concluded: 'I am firmly of the opinion that if we will be interested in the men and women of Merseyside

today, the city will prosper tomorrow."

Responding, the Lord Mayor of Liverpool, Alderman David J. Lewis, said that a great responsibility rested on the profession, the proposer of the toast had made that clear. The city was indeed a "Timeless Lady' and it was at their peril that they underemphasized the importance of the 'huge empire' in which important structures in the fields of the arts. education, commerce and industry had been built.

'This great maritime port', he said, 'will be flourish-

ing, irrespective of the importance of the Rochdale

Report, long after that Report has been forgotten.'
Proposing the toast of "The Institute of Chartered Accountants in England and Wales', Lord Kilmarnock, M.B.E., President of the London Chamber of Commerce, said he considered that the notable increase in the number of members of the Institute was an indication of the increasing recognition of the services of that great body, for the increase was certainly not due to any relaxation in standards.

Looking to the future, Lord Kilmarnock said that if the European Economic Community was enlarged to include Britain, and possibly other members of the European Free Trade Association, all the professions would, he was sure, jealously guard their standards of

professional qualification and conduct.

'Provided the professional organizations in the other countries have a similar conception of professional integrity and of the need for basic professional training, the abolition of artificial barriers can only be in the interests both of the professions and of commerce and industry,' he added.

Mr J. Howard Bradley, F.C.A., Vice-President of the Liverpool Society, proposed the toast of 'Our Guests' and Judge Robertson Crichton, Recorder of Manchester, responded.

## COVENTRY CHARTERED ACCOUNTANTS' ANNUAL DINNER

Over two hundred members and guests attended the annual dinner of the Coventry Area Branch of the Birmingham and District Society of Chartered Accountants, held at the Hotel Leofric, Coventry, on November 22nd. The Chairman of the Branch, Mr

G. F. B. Peirson, F.C.A., presided.
Proposing the toast of 'The City of Coventry', Mr G. M. M. Tonge, J.P., chairman of J. & J. Cash Ltd, said that 1962 had been marked by one of the most outstanding achievements in the City's history - a history which was linked with many brilliant achieve-

ments in many fields.

"The Cathedral', he said, 'is not merely an architectural achievement, it symbolizes the rebirth of Coventry, a city which is not a new city, but an old city which has taken on new life."

#### Centre of the Nation's Industry

He said that there were very few cities which had such a long and varied industrial history as Coventry and spoke of the amazing adaptability that had ensured her present position in the industrial world.

Rayon, nylon, cars, aeroplanes, television and telephones had all played their part in making Coventry the centre of the nation's industry, but he pointed out that the city today faced similar challenges to the ones which had confronted Coventry's industry one hundred years ago. Mr Tonge referred to the Common Market and the recent Japanese Trade Treaty as two major challenges. On the Common Market issue, he felt that Coventry had nothing to fear from Britain's probable entry. The effects of the recent Japanese Trade Treaty on textiles alone, he felt, was something for concern as it presented formidable opposition.

Responding, Councillor G. S. N. Richards, C.B.E., LL.B., who deputized for the Lord Mayor who was indisposed, said that he thought that chartered accountants in the City had worked hard and made an honourable contribution to industry, the professions and commerce.

The Bishop of Coventry, Dr C. K. N. Bardsley, C.B.E., D.D., proposing the toast of 'The Institute of Chartered Accountants in England and Wales', said that thoughts of decimal coinage and the many spheres in which chartered accountants were playing a leading role, should dispel for ever the impression of 'rolled umbrellas and bowlers'. 'Adaptation is the secret of success, and as long as we remain content with one line we will shrivel and die - we have to be ready for all changes.

Mr W. L. Barrows, LL.D., F.C.A., a Past President of the Institute, responding to the toast, said that the consecration of Coventry Cathedral was a moving ceremony which had 'thrilled and humbled the whole world'.

He spoke of the history of the Institute and told of the threefold membership increase to the present level of 36,000 members. 'Size is not everything and one of the great problems we have is in organizing the work of the Institute, and as chairman of the General Purposes Committee I am extremely conscious of the importance of branches such as yours,' he said.

Mr Barrows said that there was a need for the administration to be decentralized and to keep the branches 'more in the picture'.

The toast of 'The Guests' was proposed by Mr Peirson, and Mr Evan Ag. Norton, C.B.E., M.A., responded.

A monthly feature designed to keep readers - whether in practice or in commerce - abreast of the latest developments in the field of office equipment.

#### **Push-button Invoicing**

COMPLETE, self-contained work station for doing jobs like invoicing and stock record-keeping is provided by *Synchrotypewriter 300*, latest model in this Remington series. This improved machine, which can be used in conjunction with an eighty-column card reader-punch or paper tape reader-punch, can incorporate automatic sterling multiplication, addition and subtraction facilities, and can use continuous stationery.

In the typical set-up shown in the illustration, the Synchrotypewriter is linked to an ICT Model 1000 card reader-punch, which is controlled from the typewriter



Synchrotypewriter with Card Reader-punch

keyboard. Data are read and typed automatically from eighty-column cards, extensions being calculated and printed out in the same way. The same functions could be performed with paper tape, the reader and perforator being concealed in the desk pedestal. Continuous stationery is fed from and back to compartments at the rear of the desk behind the typewriter.

Price, from £550.

Also new from this maker is a medium-priced portable typewriter. The *Monarch*, with a die-cast aluminium frame, includes a tabulator, individual touch adjustment, a device for aligning cards and envelopes, and a paper support. It can use a two-colour ribbon and will type stencils; has margin stop setters in front of the machine. It weighs 15 lb. and has a zipup travelling case.

Price: £,31.

Remington Rand Ltd, Remington House, Holborn Viaduct, London EC1.

#### Compact Credit Transfer System

REASONABLY priced and very compact, a new Twinlock system is designed specifically for completion of handwritten credit transfer documents. Using the well-established billing board principle, it allows the simultaneous completion of the credit

# New Offic

transfer slip, credit transfer list and duplicate, and a summary sheet. Columns on the summary sheet can be used for analysis.

Basis of the system is the *Mini-board*, a posting board which folds to half the size of its 12 by 17½ in. writing area and slides into a PVC wallet when not in use. With this the makers provide specially designed and punched forms equipped with one-time carbon. If desired, the credit transfer sheets can be overprinted at a small extra charge.

Cost of initial equipment including the *Mini-board*, a binder and compressor bar, 500 credit transfer slips, and fifty each of bank instruction sheets, duplicates and summary sheets, is just over £12, including purchase tax.

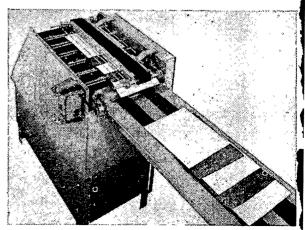
Percy Jones (Twinlock) Ltd, 37 Chancery Lane, London WC2.

#### **Automatic Collator**

OW price is a welcome feature of *Pacemaster Auto Collator Mark I*, a new machine by Kemp Applications, a British firm now well known for its paper-handling machines. This model accepts paper up to 12 by 13 in. in size and in weights from airmail to heavy art.

It has six feed stations, each of which holds 150 to 300 sheets. Feeding is by friction and rubber side grips or needle separators (both supplied with the machine) prevent double feeding. After being offset about 2 in. from the feed hoppers, the sheets are gripped by a horizontal conveyor belt and transported to the receiving hopper.

An inspection conveyor, fitted as an extension to the main machine, is an optional extra. This moves completed sets, slightly staggered in such a way that they can be removed manually one by one for stapling. Another optional extra is a foot control to stop the conveyor; but the makers say that an experienced



Pacemaster Auto Collator

# quipment

operator should be able to collect sets continuously without stopping the machine. Maximum output is 2,400 sets per hour.

The *Pacemaster* jogger by the same company may be attached to the end of the conveyor which then feeds completed sets of sheets straight to it.

Price: Basic collator, £150.

Kemp Applications Sales Ltd, 25 Coombe Road, New Malden, Surrey.

#### Scandinavian Furniture

CONSIDERATIONS of prestige and sound common sense are blended in a series of Danish furnishing units now available in this country. Designed for assembly in a bewildering number of permutations, they are made of teak, oak or mahogany and mounted on plinths or legs of wood or on today's ubiquitous thin metal legs.

Space limitations preclude even mention of all the impressive number of components available (there are twenty-one desk and table tops alone). These can be assembled into standard and L-shaped desks, occasional, coffee and working tables, filing cabinets, wardrobes, counters and bookcases. Several of these functions can be combined in one piece of furniture, owing to the wide choice of internal fitments. There is also a comprehensive range of clerical, executive and general purpose chairs.

Typical prices: five-drawer teak desk with  $27\frac{1}{2}$  by 59 in. top, £69 3s. Teak cabinet with sliding wooden doors (glass also available) and one adjustable shelf, 18 in. high by  $50\frac{1}{2}$  in. wide by 14 in. deep with 15 in. long steel legs: about £35. Fabric-upholstered adjustable office chair with teak arms, £17 11s.

Intercraft Designs, Berkeley Square House, Berkeley Square, London Wr.

#### Carbonized Correspondence Paper

OTHING, it seems, can teach the average typist that carbon paper is an expensive item. Few accountants, given the chance of going through ypists' waste-baskets, could repress a shudder when hey saw how much little-used carbon paper lay there.

A system known as *Clenlicopy* neatly avoids this prodigality by using one-time carbon. Designed for correspondence, it provides flimsy sheets, in a choice of five tints and white, each with its own attached piece of one-time carbon.

This should noticeably increase typing productivity. Vo time is wasted in collating or decollating; but at he same time, the system is completely flexible, ince the sheets are supplied singly, not ready-made nto sets.

The paper is packed in boxes with a fold-back end which makes a neat dispenser tray. The design of the heets themselves allows corrections to be made during work as easily as when using conventional separate carbon sheets. After completion of the work, a twitch on the paper-bound lower edge of the carbons removes them.

Price: according to sheet size and quantities, e.g. quarto 198 3d per 500 sheets.

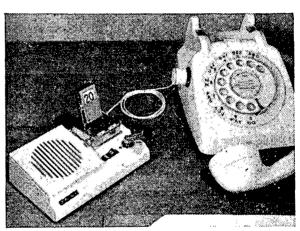
Dawley Brook Papers Ltd, Kingswinford, Staffs.

#### Telephone Amplifier

ANATTY little gadget, and most useful, is the new "Tel-Amp' transistor telephone amplifier. Attractive in appearance, cream finished and including a chromium rotary calendar and a pen or pencil socket, this exceptionally low priced piece of equipment allows one the use of both hands completely free for note taking or for handling papers during telephone conversations. One can also carry on working when asked to 'hold on' – often saving both time and temper – or several people in the room can join in a discussion with the telephone caller.

No elaborate installation is required; bijou-battery operated, the amplifier is instantaneously connected to the telephone by means of a rubber suction pad.

Price: to readers of *The Accountant*, £4 complete. Kay & Co, 126 Seymour Place, London W1.



'Tel-Amp' Transistor Telephone Amplifier

#### Paper Tape Punches

EW versions of two existing paper tape punches are described by Creed in recently issued leaflets. An additional model of the 25 Multipunch punches eight-channel codes in paper tape I in. wide. Its maximum speed for synchronous working is thirty-three and a third characters per second; for pulsed operation, up to twenty-eight characters per second. The tape duplicator set has been similarly extended.

Unipunch, a neat device for manual insertion of missing holes in paper tape, can now accept six-, sevenand eight-channel tape as well as five. To make amendments, the user locates the incorrect code, which is held in perfect register by pins, and depresses the one-hole hand punch. The hardened steel tip of this ensures a neat hole. The machine is pocket-sized.

Price: 25 Multipunch eight-channel £325; Unipunch £5.

Creed & Co Ltd, Telegraph House, Croydon, Surrey.

# Notes and Notices

## THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

#### **Presidential Luncheon Party**

The President of The Institute of Chartered Accountants in England and Wales, Mr Percy F. Carpenter, and the Vice-President, Mr Robert P. Winter, gave a luncheon party yesterday at the Dorchester Hotel. The guests were: Lord Bicester, Lord Nathan, Sir Harold Wernher, Sir William Penney, Sir Julian Pode, Mr P. W. Milligan, Mr W. Armstrong, Sir Thomas Robson, Mr P. F. Granger, Mr W. G. Densem, Mr L. C. Hawkins and Mr C. Evan-Jones.

#### PROFESSIONAL NOTICES

MESSRS & ALBAN LAMB, Chartered Accountants, of Cardiff and Newport, Mon, announce that they have taken into partnership the following members of their staff: Mr Harry Charrington, f.C.A., Mr Noel Cliffe, f.C.A., Mr C. Stanley Jones, f.C.A., and Mr Hugh M. Ireland, a.C.A. They also announce that Sir Frederick J. Alban, C.B.E., Ll.D., J.P., f.C.A., and Mr Norman E. Lamb, J.P., f.C.A., have retired from the partnership but will continue in association with the firm as consultants.

Messrs Coopers & Lybrand announce that they have formed the Jamaican firm of Coopers & Lybrand with an office at Bolam Chambers, 113 Harbour Street, Kingston, Jamaica. The resident partner is Mr G. Trevor Brown.

Messrs Henry R. Davis & Co, Certified Accountants, of I Hunter Street, Chester, and 44 Chester Road East, Shotton, near Chester, announce that Mr Harold Malcolm Shaw, A.C.A., who has been a member of the staff for several years was admitted as a partner on December 1st, 1962.

Messrs Deloitte, Plender, Griffiths & Co, Chartered Accountants, announce that they have admitted into their South Wales partnership Mr John Rowlandson, F.C.A., as from December 1st, 1962. Mr Rowlandson has been a member of the London office staff for many years.

Messrs Goodridge, Sklar & Co, Chartered Accountants, and Messrs Paul, Harris & Co, Chartered Accountants, announce that they have merged their practices as from December 1st, 1962. Councillor V. Sklar, F.C.A., and Mr P. A. Cohen, A.C.A., will practise under the style of Goodridge, Sklar & Co (incorporating Paul, Harris & Co) at 35 Bedford Row, London WC1.

Messrs P. & J. Kevan, Chartered Accountants, of 12 Acresfield, Bolton, and at Manchester, announce with regret the death, in his 85th year, of their senior partner, Mr W. L. WHITEHURST, F.C.A., on November 17th. He had been associated with the firm since 1895, and although he retired from the partnership on December 31st, 1959, he continued to attend the office until the day before his death.

Messrs Shah & Co, Chartered Accountants, announce a change of address to 28A Devonshire Street, London W1. Telephone: Welbeck 5764-5.

Messrs Thornton Baker & Co, Chartered Accountants, announce that with effect from December 1st, 1962, they are combining their present London offices at Bartlett House, 9/12 Basinghall Street, EC2, and Livingstone House, 11 Carteret Street, SW1, and are moving to new premises at Lee House, London Wall, London EC2. Their present office at Nuffield House, 41/46 Piccadilly, London W1, will coutinne as hitherto.

Messrs Whinney, Murray & Co announce that Mr B. E. McHugo, B.A., A.C.A., a member of their staff in Zürich, was, on October 1st, 1962, admitted a partner in their Zürich office, the address of which is now Schweizergasse 6, Zürich 1. They also announce that Mr H. J. McDowell, F.C.A., who was formerly resident in Copenhagen, is now the partner in charge of their office in The Hague.

## THE ASSOCIATION OF CERTIFIED AND CORPORATE ACCOUNTANTS

#### Annual Dinner and Dance

The President of The Association of Certified and Corporate Accountants, Mr Edgar Spencer, F.A.C.C.A., presided over a company of about six hundred members and guests at the annual dinner and dance of the Association held at Grosvenor House, Park Lane, London, on Monday evening.

The principal guests were the Rt Hon. The Viscount Mills, K.B.E., and Viscountess Mills; Alderman Sir Frederick Wells, Bt; Mr David Price, M.P., Parliamentary Secretary, Board of Trade, and Mrs Price; Sir Henry D'Avigdor-Goldsmid, Bt, D.S.O., M.C., M.P., and Lady D'Avigdor-Goldsmid; Mr J. C. Stewart, C.A., President, The Institute of Chartered Accountants of Scotland; Mr P. F. Carpenter, F.C.A., President, The Institute of Chartered Accountants in England and Wales, and Mrs Carpenter; Mr W. Bishop, C.A., F.C.W.A., President, The Institute of Cost and Works Accountants; Mr N. Doodson, F.S.A.A., F.I.M.T.A., President, The Institute of Municipal Treasurers and Accountants.

The toast of 'The Guests' was proposed by the President and Viscount Mills responded.

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#### REVALUATION OF ASSETS

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#### INSPECTOR-GENERAL OF COMPANIES

The Board of Trade have announced that Mr George Frederick Morris has been appointed to be Inspector-General of Companies, Companies Liquidation and Bankruptcy.

They have also appointed Mr George Frederick Morris to be the Registrar of Deeds of Arrangement for the purposes of the Deeds of Arrangement Act, 1914. Both appointments took effect on November 19th, 1962.

#### DOUBLE TAXATION: ISRAEL

The Double Taxation Convention with Israel, which was signed on September 26th, was published on November 22nd as a schedule to a draft Order in Council.

#### DOUBLE TAXATION: SOUTH WEST AFRICA

The provisions extending to South West Africa, the Double Taxation Convention between the United Lingdom and the Republic of South Africa, were sublished on November 22nd as a schedule to a draft order in Council.

#### THE DUBLIN SOCIETY OF CHARTERED ACCOUNTANTS Luncheon Meeting

L luncheon meeting of the Dublin Society of Chartered Accountants held at Jury's Hotel, Dublin, on Iovember 14th, was addressed by Mr J. Lynch, T.D., ne Minister for Industry and Commerce. The Chairman of the Society, Mr R. P. J. Smyth, F.C.A., was in ne chair, and the meeting was attended by a very urge number of practising and non-practising sembers.

After briefly adverting to the fact that this was not ie first occasion on which he had addressed the Jublin Society of Chartered Accountants, the Minister ent on to his main topic which was the new Companies ill. He stated that there were some business firms ho would have to be compelled by statutes, such as ie new Companies Bill, to prepare and present odern accounts to their firms and the public. He did ot think that these accounts would pose any great toblems for company accountants and auditors. The ill anticipated some of the changes which were commended by the Jenkins Committee, but some her refinements and elaborations proposed by that mmittee had not been included because of the reponderance of small private companies in the epublic. Mr Lynch said that he would be relying, to great extent, on the watchfulness of the professional odies to ensure that the standard of accountancy and iditing were kept at a high level.

The Bill imposes certain requirements in relation to allification for appointment as auditor, but it has not yet been decided what societies should be recognized. For this purpose the Minister said that 'organizations of substance will have little to fear in this respect'. If the proposals in the Bill became law, the position of auditor would become a more or less permanent one. The Bill proposes that, as regards voluntary winding-up of companies, there will, in future, be two types, creditors voluntary winding-up, and members voluntary winding-up. There are some substantial changes in respect of preferential payments in winding-up, and the liquidator will have an obligation to report to the Attorney-General any offences which come to light in the course of a winding-up.

The Minister will recommend that a special committee of the Dail be set up to consider the Bill, and this committee will welcome comments, especially from the profession.

#### **Industrial and Administrative Group**

Meetings of the Industrial and Administrative Group of the Society have been arranged as follows:

February 6th, 1963, 1 p.m., 'Public speaking for businessmen', by Mr Laurie Duffy (chairman, Toastmasters Club).

March 20th, 6 p.m., 'Modern accounting developments in U.S.A.', by Mr B. A. Maynard, F.C.A.

In addition, the Group holds monthly luncheon meetings and also study group meetings at which a small number of members attend by invitation.

#### LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

The final meeting on the Common Market will be held next Thursday at the Chartered Insurance Institute at 5.30 p.m. Mr J. Kraayenhof, Past President of the Netherlands Institute of Accountants, will speak on 'The practice and the profession of accountancy within the Common Market' and a period of discussion and questions will follow.

#### SW. LONDON DISCUSSION GROUP

The next meeting of the South West London Chartered Accountants' Discussion Group will be held at the Kingston Hotel, Wood Street, Kingston upon Thames, at 6.45 for 7 p.m., on Monday next, December 3rd. The subject will be the 1962 International Congress of Accountants, introduced by Mr R. O. A. Keel, F.C.A.

#### ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The monthly meeting of the Accountants' Christian Fellowship for Bible reading and prayer will be held at 1 p.m. on Monday, December 3rd, in the vestry of St Mary Woolnoth Church, King William Street, London EC3. The scripture for reading and thought will be John, Chapter 15, verses 16 to 19.

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# ACCOUNTANT

#### CORRECTIONS

We regret the error in the style and title of the Rt Hon. Lord Robens of Woldingham, P.C., in the note, on page 695 of our last issue, on the London Cost Conference of The Institute of Cost and Works Accountants.

With reference to the note relating to the Yorkshire Electricity Board's E.D.P. system on page 660 of our issue of November 17th, we are now informed that the volume of work handled greatly exceeds that indicated. In fact, the installation each day will be processing data relating to one and a half million consumers and 25,000 bills a day will be sent out, apart from reminders. This is the first stage of development and work other than consumer billing will eventually be undertaken.

## LONDON STUDENTS' COLUMN

#### News from the London Chartered Accountant Students' Committee

#### by A Student Member

Perhaps the most important news of the month is that the London Committee of the District Society have agreed in principle a request for an increase of the students' annual subscription by  $f_{,2}$  2s. Given this encouragement, the search for new premises can now begin seriously. Wanted -3,400 square feet in the City!

#### Activities

Attendances at the introductory and 'practical aspect' courses have shown substantial increases while the general lectures have recovered from a poor start in this respect. The mechanized accounting course has made its usual satisfactory showing.

#### Subcommittees

It has been agreed to make greater use of the power to co-opt non-committee members on to subcommittees. The Committee may decide to ask for further powers to meet the difficulty of maintaining attendance at subcommittee meetings at the next annual general meeting.

#### **Drama Society**

It has been reported that a member is interested in starting a production side of a drama society. The Committee have welcomed the suggestion.

#### Magazine

Approval has been given to a request by the editorial board of *Contra* for permission to have their own note-paper, as the design of the Students' Society's official notepaper is unsuitable for their purposes.

#### **President's Meeting**

The President's meeting will be held in Guildhall on Monday, February 4th, 1963. Sir Frank Lee, Master of Corpus Christi College, Cambridge, and formerly Joint Permanent Secretary to the Treasury and Chairman of the Economic Planning Board, has accepted the President's invitation to speak.

#### The Students' Club

The Club has been forced to search for new premises after November 30th. No definite progress has been made, but there are hopes that a place will soon be found.

#### **Debates**

Attendance at debates has dropped alarmingly, and members of the Debates Subcommittee are at a loss for a reason. Suggestions from members which may help to retrieve the situation will be warmly welcomed.

#### Dates to Note

December 10th: Annual dinner at Grosvenor House, Park Lane, W1.

January 4th: Christmas dance at Dunster House, Mincing Lane, EC3.

#### Next Week's Meetings

The following meetings of The Chartered Accountant Students' Society of London will be held during next? week:

Tuesday, 5.30 p.m., at the Chartered Insurance Hall, 20 Aldermanbury, EC3: Mock company meeting Theorem Chairman: Sir Harold Gillett, Bt, M.C., F.C.A. (a Vice President of the Students' Society).

7.30 p.m., at Ewell: Lecture on 'Investigations', by Mr R. S. Waldron, F.C.A.

Wednesday, 5.30 p.m., Lecture and demonstration of punched-card accounting (limited number).

7.15 p.m., at Reading: Lecture on 'The stock exchange and the London money market', by Mr A. J Whiteside, Barrister-at-law.

Friday, 7.30 p.m., at Southend: Lecture on 'Interpretation and criticism of accounts', by Mr C. J. Russell, A.C.A.

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# ACCOUNTANT

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# Anatomy of Business

HE Board of Trade's latest report on company structure<sup>1</sup> skilfully dissects the habits and behaviour of business undertakings in the United Kingdom during the years 1958–60. It follows along the lines set by earlier publications, but the present survey gives a much wider range of statistics relating to individual companies than any of the previous efforts.

The report is divided into two sections. The first section contains a list of 1,909 companies with net assets of £0.5 million or more at the end of 1960, arranged in descending order of their net assets. In addition, ranking by annual average income is shown, together with enough statistical data to gladden the heart of the most ambitious investment analyst—return on gross assets, introduction of new capital, provision for depreciation and percentage growth in net assets between 1958 and 1960.

Whether one takes net assets or average annual income as one's criterion of size, Imperial Chemical Industries heads the list, followed by Unilever. The position is reversed, however, if one chooses to adopt turnover as the determining factor — Unilever (£1,847 million), I.C.I. (£558 million).

The second section, which contains seven summary tables, epitomizes the structure and behaviour of 2,618 companies (the 1,909 companies listed in section I plus a further 709 small companies with net assets of less than £0.5 million whose accounts for 1960 were the subject of separate analyses earlier this year<sup>2</sup>).

The three years, 1958-60, witnessed a fall in the number of small companies. This was particularly noticeable among those with assets of less than £0.5 million. It is in this sector that many of the acquisitions by the larger companies have taken place. Indeed, the whole tenor of the analysis points unmistakably to the increasing concentration of business through the medium of mergers and acquisitions. For instance, the hundred largest companies, which at the end of 1957 already accounted for 51 per cent of total net assets, had, by the end of 1960, increased their share to 54 per cent. Then, during the same three years two hundred or so companies which were newly granted stock exchange quotations were added to the Board of Trade analysis. Allowing for the net fall from nearly 2,900 companies analysed in 1957 to just over 2,600 at the end of 1960, it would seem that about 450 companies lost their 'quoted' status for one reason or another.

Furthermore, a glance through the index reminds us that the

<sup>&</sup>lt;sup>1</sup> Company Awests, Income and Finance in 1960. H.M.S.O. Price 10s net. <sup>2</sup> Economic Trends, April 1962.

trend continues because a note is made where a company included in section I was liquidated, taken-over, merged with another company or renamed before December 31st, 1961.

Nor is that the only supplementary information to be gleaned from the notes in the index. For the first time, turnover is shown for those companies disclosing this information in their 1960 accounts. A select band of 120 companies passed this test – little more than 6 per cent of the sample – so there is still plenty of scope for improvement in this direction, particularly among the smaller companies.

Returning to the main summary tables, the value of the net assets of the quoted companies at the end of 1960 was £13,500 million, while additions to net assets between 1958 and 1960 amounted to £2,900 million. After eliminating

the effect of revaluations of fixed assets, amounts written off goodwill and similar items, net assets rose by about 28 per cent over the three years. Perhaps the most typical growth for a company over the period was between 10 and 19 per cent, with an annual rate of between 3 and 6 per cent.

A comparison of the figures shows quite clearly that there is a distinct relationship between the size of companies and their rate of growth. Among very large companies, two-thirds increased their assets by 20 per cent or more in the three years, and only one in seven shows a rise of less than 10 per cent.

If only the medium-sized and smaller companies could keep up with the pacemakers, N.E.D.C. might have been able to contemplate its appointed task with comparative equanimity.

# **Back Duty Progress**

COMPTROLLER AND AUDITOR-GENERAL announces the latest score in the perpetual game between the Inland Revenue and the tax evader. In his report on the Revenue Departments Appropriation Accounts for 1961–62 he releases the statistics supplied to him relating to investigations into under-assessment resulting from fraud and evasion of taxes on income and profits. The six-year comparative table is as follows:

Year	Number	Total	Penalties
ended	of .	charges	and interest
March 31st	cases	raised	included
1962	11,868	£18,770,906	. £5,200,427
1961	9,752	12,905,544	5,549,820
1960	13,734	19,642,073	8,491,884
1959	10,757	18,013,864	6,792,470
1958	14,593	21,529,264	9,495,437
1957	15,511	22,549,246	9,426,295

In the last year another £694,629 was collected by local inspectors in minor cases, relating to untaxed interest, allowances, etc.

The COMPTROLLER observes that the latest year was the first full year of operation of the revised penalty provisions of the Finance Act, 1960. He does not mention that the drafting of these new provisions was found by the Divisional Court to be wanting<sup>1</sup> and that the draftsman had to have a second shot in the Finance Act, 1962.

Notwithstanding that the 1960 Act gave power to charge interest and also contained provisions making it much easier to impose penalties, that Act drastically reduced the maximum penalties; hence the dramatic fall in the penalties recovered. It did so because of the public outcry aroused by the case of C.I.R. v. Hinchy (39 A.T.C. 13) where the Inland Revenue successfully sued a taxpayer for penalties amounting to £438 because he understated interest by some £33.

In a leading article on August 18th, we commented on the Committee of Public Accounts' recommendations that the Revenue's powers under section 20 of the Finance Act, 1956, be exercised with more urgency. A Treasury minute dated November 13th, 1962, takes up the story. It agrees that the inquiries now in hand to test the extent of tax evasion in the field of building and civil engineering subcontracting 'should proceed as speedily as possible'. It adds that the investigation whereby selected tax districts are making special inquiries of firms engaged in the building trade as to payments made by them to subcontractors is necessarily spread over a period 'as different firms render their accounts to the Inspector of Taxes at different times of the year and the results are therefore not yet available' It would seem from these words that the inquiry is confined to current accounts; presumably at the time when the tax computation on them is being agreed.

<sup>&</sup>lt;sup>1</sup> Ex parte Fysh (The Accountant, April 28th, 1962, page 523).

## Taxation of Excess Rents

by H. S. A. MACNAIR, F.C.A.

ANY years have elapsed since the 1936 general valuation of properties for Schedule A purposes. New properties ave come into being while others have lost their dentity or have been reassessed on the grounds hat structural alterations have been made. From a egal standpoint it would perhaps be more correct o say that in such cases the property as constiuted prior to the alterations has ceased to exist on the creation of the new unit, a point noted by Channel, J., in *Turner v. Carlton* (5 T.C., at page 1900) and Lawrence, J., in *Lyons v. Collins* (15 A.T.C., at page 264; 21 T.C., at page 22).

As appears from the case of Thornley v. Brown 8 A.T.C. 3; 15 T.C. 459) the distinction is naterial since section 84 (3) of the Income Tax Act, 1952, directs that the annual value of any property which has been adopted for the purpose of income tax under Schedule A for any year of ssessment shall be taken as being the annual alue of that property for the next year of assessnent, unless a year of revaluation. For the latter, he annual values of all properties in Great Britain are required to be determined afresh (section 84). As it happens, the Inland Revenue Valuation Offices in England and Scotland are at present ngaged in preparing for a general revaluation in 963 although its primary purpose concerns local uthority rating.

#### General Revaluation

The income tax law in force in 1936 contemplated he repetition of a general revaluation every five ears, an intention frustrated by the events of 940. This postponement emphasized the possible oss of tax in years subsequent to a general evaluation through the fact that the existing ssessment could be adjusted downwards (section 4) but not upwards. The opportunities for expayers afforded by this state of the law are lustrated by the case of Salisbury House Estate td v. Fry (9 A.T.C. 101; 15 T.C. 266) which stablished the principle that the taxable capacity therent in the ownership of land was exhausted y its assessment under Schedule.A. In conseuence, legislation was introduced in 1940 to nable the Revenue to assess under Schedule D ie excess of the actual taxable capacity of property over the measure of that capacity as determined for Schedule A purposes.

These observations serve to point the distinction between excess rents and other profits or gains assessable under Case VI. With regard to the latter, the method of computation required is expressed by section 135 in terms corresponding to those applicable to profits dealt with under Cases I and II (except as regards the question of basis periods), namely, the full amount of the profits or gains arising.

#### **Commercial Loss**

This commercial basis is applicable to excess rents only where losses are concerned, a curious anomaly resulting from the fact that relief for losses is accorded by section 346, relating to Case VI generally, which was originally enacted in 1927. The Revenue at one time argued that this section was not drawn widely enough to cover losses on the re-letting of property, but the contrary view was established by the House of Lords in *Littman v. Barron* (31 A.T.C. 387; 33 T.C. 373). Viscount Simon emphasized the distinctive nature of excess rents in these words:

"... the "excess" on which tax under Case VI of Schedule D is charged is the result of a formula. The formula might bring out a figure of excess when there was no commercial profit and there might be commercial profit though the formula would bring out no excess to be taxed.

Excess rents do not arise in the case of a 'long lease', defined as a lease granted for a term exceeding fifty years (not being a lease which is or takes effect as a lease for a term of years determinable after the death or marriage of any person). Moreover a lease terminable at the option of the lessor before the expiry of fifty years is to be deemed to be a short lease, while a lease granted for a term exceeding fifty years (if not so terminable) is to be deemed to be a long lease, notwithstanding that the lease is terminable at the option of the lessee before the fifty years are up.

Alternative methods of computing excess rents are prescribed according to whether the case falls within section 175 or 176 of the Income Tax Act, 1952. In applying the formula it is necessary to identify the 'immediate lessor' of any given premises. In its simplest form the definition of

this expression in section 172 envisages a lessor whose immediate tenant is occupying or entitled to occupy the entirety of the premises. If, however, different parts of the premises are the subject of separate tenancies or separate occupations, regard must be had to any lessors of the whole or any part of the premises whose estate or interest extends to the entirety of the premises and is not itself subject (immediately or mediately) to a lease of the entirety thereof. The identification of the 'immediate lessor' rests with that lessor (if more than one) whose estate or interest is not reversionary on the estate or interest of any of the others.

#### Single Unit of Assessment

The case where an immediate lessor gets rent from premises comprised in a single unit of assessment under Schedule A falls under section 175 provided that no part of the rent is derived from a letting of part of such premises let together with other premises not wholly comprised in that unit. All other cases fall under section 176.

The formula under section 175 requires a comparison of the net annual value or rent payable (whichever is the less) with the notional net annual value ascertained by reference to the facts of the year in question. Unlike the position where rack-rents are computed for Schedule A purposes, no regard may be had to such matters as premiums (Davies v. Abbott (6 A.T.C. 296; 11 T.C. 575)) or rising rents (C.I.R. v. Dickson's Executor (7 A.T.C. 485; 14 T.C. 69)) which may represent facts of some year other than that under review. The correct approach to be adopted was discussed by the House of Lords in Tollemache Settled Estates v. Coughtrie (30 A.T.C. 46; 39 T.C. 454) where a suggestion that royalties for a sand-pit should be averaged over the period of the lease was negatived and approval given to the following computation:

Royalties actually received: April 1st, 1953, to March 31st, 1954	£646
Surface rent actually received: Two acres: April 1st, 1953, to September 29th, 1953; seven acres: September	v
29th, 1953, to March 31st, 1954	22
Less: Repairs: one-eighth	668 84
Less: Net annual value (Schedule A)	58 <sub>4</sub>
Excess rent (under section 175)	£577

#### Rack-rent

On the other hand, approval was given in principle to the adjustments required to bring the actual rent to a rack-rent, such as a deduction for rates borne by the landlord or an addition for repairs borne by the tenant. An illustration of the latter in the context of Schedule A is available from Bishop and Marco v. Talbot (25 T.C. 398) where the case stated records a determination by General Commissioners as follows:

Rent	• •	• •	• •	• •		£130
otherwis	nake good se than by	damaş fair w	ge whi	ch occu	ırred	
operatio	ns (10 pe	r cent)		••	• •	13
Gross ann	ual value	• •		• •		143
Less: Repa	airs allow	ance	••	• •		27
Net annua	l value (S	Schedu	le A)		••	£116

A further illustration of the formula under section 175 is to be found in *Strick v. Longsden* (32 A.T.C. 371; 34 T.C. 528) relating to a farm where the rent was increased half-way through the year 1947-48 from £200 per annum to £675; the approved computation is shown on the next page.

A final point to be noted under section 175 concerns the case where the immediate lessor is himself occupying part of the premises. In this event the rent is deemed to be increased by an amount equal to the relevant proportion of the gross annual value as determined for Schedule A purposes.

#### Landlord's Services

Under section 176 the method of computation prescribed involves a series of deductions from the gross rent parallel to those required by the notional valuation called for under section 175. The first group of deductions involves conversion of the gross rent to a rack-rent by subtracting tenants' rates and the cost of any services rendered or goods provided by the landlord otherwise than by way of maintenance or repairs, being services' or goods which he is required to provide by the terms of the lease but in respect of which hel receives no separate consideration. A useful practical application of these rules in the context of Schedule A is to be found in Pearl Assurance Co Ltd v. O'Callaghan (21 A.T.C. 242; 25 T.C. 211). This case concerned an office building let to various tenants who used in common the entrance, staircase and landings, as well as a passenger lift,

	ŧ			,		April October	to				October 1947, to 5th,	Ap	pril
Rent receivable per annum						£200	0	0			£675	0	0
Deductions:													
Repairs – £30 $\times \frac{1}{4}$		•••		£7 10	0				£7 10	0			
- Balance $\times \frac{1}{8}$			. • •	21 5	0				80 12	6			
Tithe				15 10	0				15 10	О			
Land Tax		• •	*11	2 10	0	_			2 10	0	٠		_
						46	15	0			106	2	6, ——
						£153	5	0			£568	17	6
Proportion for the period	••	• •				79	7	0			274	4	0
									353 11	0			
Net annual value (Schedule	A)	• •	••		£				148 15	0			
Excess rents (section 175)	••		••	•					£204 16	0			
•	·		••		af ,				148 15	<u> </u>			

or the upkeep and cleaning of which the landord was liable. Details of the undermentioned andlord's services were set out in the case stated and, as noted in the Court of Appeal, their admissibility was agreed by the Revenue:

- (a) Lift insurance, inspection, oiling, servicing, electric light and power (lift repairs and replacements fall to be dealt with on the same footing as repairs to the building).
- (b) Caretaker and lift attendant wages and national insurance, cleaning materials, rates and gas.
- (c) Electric lamps and light.
- (d) Water rates and cleaning of stairs, passage, corridor and drains.

The second group of deductions is identical with hose applied under Schedule A. They include and tax, drainage rates, sea-wall expenditure on twenty-one-year average, five-sixths of tithe innuities, owner's rates in Scotland (if applicable) and certain ecclesiastical deductions.

#### **Maintenance Relief**

The deduction of the rent payable in respect of the premises or the net annual value, whichever is the reater, corresponds with the rule under section 75. By that section, however, a notional repairs llowance is also granted (with corresponding djustments in the deduction for repairs and the eiling of relief applicable to any maintenance

claim under section 101 for the same year). Section 176 applies a simplified procedure by providing for the deduction (on a five-year average basis) of any expenditure not relieved under section 101. Thus where section 176 applies no adjustment is required to the normal method of computing maintenance claims.

#### **Accrual of Rents**

In conclusion, it may be mentioned that the treatment of rents under long leases is assimilated to that of annual payments, deduction of income tax at the standard rate being made in accordance with the rules of sections 169 and 170, with adaptations whereby rents in Scotland for the period ending at May 15th in any year are treated as falling within the fiscal year ending at April 5th previous to that date. This treatment contrasts with that applied to short leases where rent is computed by reference to the period over which it accrues due (vide Strick v. Longsden, supra).

Strictly applied, this rule would preclude the grant of relief where bad debts occur. It is suggested, however, that the various extrastatutory concessions relating to Schedule A (published by the Commissioners of Inland Revenue in their hundredth annual report) may be regarded as applicable to excess rents. If so, appropriate relief would be given in respect of rent which is wholly and irrecoverably lost or waived owing to the bad financial circumstances or absconding of the tenant.

# Problems of the Smaller Practice - II

by R. W. SMITH, O.B.E., T.D., F.C.A.

#### Relationship with other Practitioners

NCE again in considering the problems that arise we should be governed by a desire to treat our professional brethren as we should like to be treated ourselves. This attitude should make no distinction between those who are chartered accountants and those who are not. This is another example of the very great rift that lies between the small and large practice. I imagine the impact of the unqualified practitioner on the large practice is almost non-existent. By this I do not mean that the large practitioner is unaware of their existence, but he seldom comes face to face with them in the course of his everyday business. There is no doubt that among small practitioners and particularly in rural areas the competition from unqualified practitioners and others is one of the most difficult problems.

34. The problem arises because as a profession we do not yet seem able to reconcile the elements of competition and co-operation, possibly because we have not been established long enough. It is wrong not to regard our profession as competitive but at the same time we must remember that competition is not a matter of doing a job for a smaller fee or in less time than the next man. True competition for us consists of acquiring an adequate professional competence which we are prepared to keep right up to date, giving the best possible service to our clients and charging a fee which is not only fair to the client, but also fair to ourselves and our staff. These elements of the problem are also very closely connected with relationships which I shall be referring to later on in this paper, but at this point I must state that many of the smaller practitioners approach this problem in what I regard as quite the wrong way. It may be that they feel they have little help or guidance - but so many of them unfortunately do allow themselves to be influenced too much by the financial element of competition. It is not confined to us, it is a feature of the world of commerce. From this arises the controversy which is an annual subject for discussion in the groups on the question of regulating fees. I intend to refer to this later on, but without a satisfactory system of controlling fees our maxim must surely be that to obtain work as a result of a reputation for charging a low fee can only end in bad work, dissatisfied clients, a poor reputation for the Institute, and the practitioner finding himself in a downward spiral from which it is impossible for him to recover.

35. Obviously the first step towards a remedy for this problem is to provide for a measure of co-

The second part of a paper presented at this year's Oxford Summer Course of The Institute of Chartered Accountants in England and Wales. operation among the small practitioners without stifling competition and this must in the end be good for the clients. It is admitted that there are unsatisfactory clients and I think it should be more difficult for such a client to obtain the services of another accountant.

36. I have been able to find no better way of expressing this sentiment than in the words of Sir William Carrington at the seventy-fifth annual general meeting of the Institute: 'Our function is to provide skilled professional services, not to provide a cloak of respectability as a cover for a client's deficiencies, whether due to carelessness or other causes.'

37. Is there perhaps in this a case for a kind of lower tribunal than the Council itself, which could operate through the medium of district societies, and endowed with the power to give members disciplinary advice amounting if necessary to reproof? It seems to me that such limited power could be defined without great difficulty, and might well lead to an improvement in professional behaviour – without involving members in the severe disciplinary remedies reserved by the Council for infringements of greater gravity.

38. Another aspect of this problem is that any member of our Institute, immediately on qualifying, may set up in public practice without any postgraduate experience. Among smaller practitioners the disadvantages are accentuated because this member may be in sole practice or in partnership with another whose experience is no wider than his own. In a larger practice he will almost certainly have more experienced partners to whom he can turn for advice. I think all this points to a number of possible improvements designed primarily to make the road less difficult for the smaller practitioner. In the first place I consider that his training should include a much greater emphasis on professional behaviour and etiquette - at the moment this is a feature much neglected by principals, examiners and student societies.

39. It has also been suggested that there should be some interval after qualification before a member may be permitted to engage in public practice. This is not a solution, and could only under present conditions bring criticism to bear on the Institute's examinations which allow a candidate to reach a standard of competence which satisfies the examiners but does not necessarily endow him with the qualities needed to practise his professional skill.

40. I would much rather see this problem tackled along the lines of a Practitioners' Advisory Service—which was suggested early in 1961 as a solution to some of the smaller practitioners' problems. As I

understand the position this matter has been the subject of some investigation through the district societies, and the objects of the proposal were as follows:

- (a) "To devote its whole attention to improving the profitability of accountancy practices.
- (b) To acknowledge that there are many practitioners dealing largely with work which it is not practicable to execute to the highest standards, and always to bear in mind that these are the types of practitioners in most need of assistance.
- (c) To initiate and supervise a "Practitioners' Advisory Service". It is contemplated that this would be under the immediate control of a full-time salaried director, with adequate staff, who would:
  - Gather data relating to all types of accountancy practices; their methods, costs, fees and results.
  - (ii) Accumulate experience regarding the best or most economical ways of dealing with the various types of work handled by accountants.
  - (iii) Regularly circularize to practitioners the results of (i) and (ii).
  - (iv) Answer specific queries submitted by individual practitioners.
  - (v) Consider whether it would be practicable, if not to recommend rates of fees, at any rate to recommend standard ways of computing these.
  - (vi) When requested, visit the offices of practitioners and submit to them detailed reports regarding their methods and results.'
- 41. The author of these proposals admits that such a scheme would cost money, but that bearing in mind the very large proportion of Institute income that comes from the subscriptions payable by small practitioners, the provision of such a service would be no more than a fair return and as I have said elsewhere anyone who made use of such facilities should have little objection to paying a reasonable fee.
- 42. Before I leave this part of my paper I would like to make reference to another difficulty which I think must be largely confined to smaller practices. This is the effect of having a partner who is not a qualified accountant. There are many such practices and I believe that the majority of them exist for the good reason of providing a chartered accountant as a successor to a practitioner wishing to retire frequently a son succeeding his father who aims to improve the status of his practice. There are some, however, where such conditions do not exist and any chartered accountant who is a partner in such a practice may not necessarily be reducing his problems.

#### Relationship with the Institute

43. It is thus a very short step that we need to make to bring us into considering the problems that arise for the small practitioner as a result of his relationship with his own Institute. They arise from a sense of remoteness and in consequence to some

extent out of ignorance – on both sides. This can lead very easily to a feeling on the part of the smaller practitioner that his problems are allowed to pass unrecognized. Until very recently I do not think that the Institute has made sufficient efforts to find out exactly what the difficulties of the smaller practitioner amount to. I have already referred to the questionnaire which has been the subject of inquiry during the last twelve months. There is no doubt that when the results of this inquiry have been fully examined much more information will be available to the Council and will indicate ways in which some of the difficulties which face the smaller practitioner can be resolved. As I have already stated it is not my intention to deal with the questionnaire but to give you my own views on the subject.

- 44. If there has been some ignorance in high places about the conditions and problems of the smaller practitioner there has also been considerable ignorance on his part of what goes on, not only at Moorgate Place, but also in the district societies. Probably one thing which has done much to remove this ignorance on both sides has been the informal atmosphere that prevails at summer courses, where it has always been possible for members of the Institute to meet successive presidents and members of the Council, under conditions where frank exchange of views has always been encouraged. Unfortunately limitation of numbers does not permit more than about 1 per cent per annum of members to attend these courses but I know only too well from my own experiences that there are very few indeed of our members who having once attended do not wish to come again. It is for obvious reasons less easy for the small practitioner to attend these courses but the number who do manage to come is a surprisingly high proportion of those attending.
- 45. A similar problem arises in connection with representation on the local and central government of the Institute. It is a frequently expressed criticism that the smaller firm is seldom represented on the Council of the Institute, although I do consider that they are probably adequately represented on district society committees. Representation in either way is not, however, in anything like the proportion which I referred to in the introduction to this paper, but I venture to suggest that there are relatively few members of small practices (as I have attempted to define them) who would be willing and able to give up sufficient of their professional time to render themselves suitable representatives, and at the same time not risk neglecting their own practices.
- 46. There is no doubt that one of the effects of this is that decisions made and statements issued by the Council may carry an implication that policy which is appropriate to a large firm dealing with large clients can be applied equally well to smaller firms with their smaller clients. I may perhaps be permitted to give one or two examples of what I mean by this.
  - 47. Those sections of the Members' Handbook

dealing with stock-in-trade provide a good example of what I am trying to demonstrate. They are N 22 dealing with the treatment of stock-in-trade and work in progress in financial accounts and U 2, the statement on auditing dealing with the same subject. No one will disagree with the counsel of perfection that is laid down but it is in the application that the problems arise for the small practitioner. I feel certain that considerable difficulty arises in the strict application of such maxims to the general run of audits carried out in the smaller practices.

- 48. In section N dealing with accounting principles there are twelve recommendations which are still of current application and I venture to suggest that only the following are of particular importance to the majority of practitioners:
  - No Depreciation of fixed assets.
  - N 14 The form and contents of accounts of estates of deceased persons and similar trusts.
  - N 18 Presentation of balance sheet and profit and loss account.
  - N 19 Treatment of income tax in accounts of companies.
  - N 20 Treatment of investments in the balance sheets of trading companies.
  - N 21 Retirement benefits.

I must hasten to add that when I make this statement I am far from saying that the remaining recommendations are not of interest to many members of the Institute. They are all excellent for the purpose for which they are intended and much thought has been put into their preparation. What I am saying is that the smaller practitioners are inclined to think – and I consider are justified in so thinking – that similar efforts might well be expended upon advice about many of the problems which are peculiar to their own existence such as I have tried to exemplify in this paper.

- 49. I wonder too if the effort which has been put into many of these Institute statements really means very much to the larger firms who are likely to be interested in their application. Take for example the two recommendations N 13 and N 16 dealing with reports for prospectuses. There can nowadays be very few firms concerned directly with such reports this has become an entirely specialized business and one is accustomed to see that even in a prospectus where the named auditors are a firm of considerable eminence, they are not of necessity the reporting accountants.
- 50. I think we should all prefer to see an extension of the sections of the *Members' Handbook* dealing with practical points and technical statements of the kind contained in sections P and S. These I am sure would have a considerable appeal to all members of the Institute, and would go a long way towards providing the basis of the advisory service that has been referred to elsewhere.

#### Relationship with Clients

- 51. Possibly the problems arising from the relationship with clients are the most important or perhaps because of their almost daily occurrence they seem to be the most important but I want to try not to over-emphasize them because they do fit into the general pattern of the other human relationships I have been attempting to describe. When I said just now that such problems are of almost daily occurrence I was underlining what is, in this connection, the most important difference between the small practitioner and those of greater size.
- 52. The chartered accountant in the smaller practice is by the very nature of it rather too close to his clients and one of his greatest problems is to find the opportunity of getting away from them and considering them in true perspective - an exercise which he is seldom able to carry out. Except in the very large towns the small practitioner is always meeting his clients both on and off duty - in the club, the pub, bus or train, at church, school prize-givings and so on - he rarely gets away from them. If they cannot see him at the office they will call on him or telephone him at home, and he has to don a very tough outer shell if he is going to make sure of leading a private life of his own. On the other hand he will have to temper his behaviour so that he is not to earn a reputation for being difficult to approach.
- 53. This brings with it other attendant problems which are seldom encountered in the larger practice. Many of his clients will be well known to each other some will be friends, others enemies, male and female many will have their own difficult and delicate business relationships with each other, and all these cross-currents will constantly be carrying the small practitioner from Scylla into Charybdis from which he will seldom emerge unscathed or unruffled. There is no remedy for this problem other than to be possessed of infinite patience and good temper, an inexhaustible sense of humour, tact and resource, a great understanding of human nature and a perfect secretary.
- 54. On the other hand, as we have seen earlier in this paper the very nature of this problem is a challenge and an opportunity. We have already noted that the small practitioner's competitors include not only the members of his own Institute but other kinds of practising accountants and the members of other professions, and with the very close personal contact which he is bound to have with all his clients he will find a ready field for expansion so long as he can demonstrate that he has something better to offer than the next man by way of personal skill, service and a high standard of performance. I am certain that this is one of the answers to those who advocate registration.
- 55. Inseparable from the problems arising from the relationship with clients is the question of fees. Let us try to look at this problem objectively. Without adequate remuneration we cannot equip ourselves

with suitable offices, competent staff, modern equipment and a decent standard of living. Without all these (of which the last is not the least) we shall never be in a position to provide the client with the skill, service and performance which I referred to in the previous paragraph. This brings me to the controversy which has been the subject of midnight discussions at every summer course – the question as to whether or not there is a case for the regulation of our fees.

56. Let us first of all see where we as a profession stand over the matter of fees. Perhaps the best guide we have is contained in the report of the Royal Commission on Doctors' Remuneration under the chairmanship of Sir Harry Pilkington which produced its findings early in 1960. These were based on the expectation of earnings for a man in each profession aged 30 in 1955 working full time until retirement at the age of 65. The definition of professions used was somewhat unusual since it included engineers and graduates in industry, but the results were interesting, and from the accountants' point of view somewhat disturbing. Of the nineteen groups into which professional earnings were divided accountants took sixth place from the bottom of the list, and with the one exception of graduates employed in industry all groups whose expectation of earnings exceeded that of accountants were those which either have registration, or some system of controlling fees or

57. I am sure that the evidence of this report will be confirmed by any practising accountant who will agree that newly-qualified doctors, dentists, solicitors and auctioneers, within a year or so of setting up in practice, frequently attain a level of net income which a chartered accountant in a small or even a mediumsized practice can never hope to attain in a life-long career. This is not due to any excess of natural ability but simply as a result of the fact that these professions are protected one way or another. I am bound to give some importance to this question of ees because there is no doubt that opinion is very livided on the main issue of whether or not there hould be some form of regulation. I have made ome researches first of all into what has been said on earlier summer courses and elsewhere.

58. In 1949 Mr H. T. Nicholson expressed himself is being in favour of regulating fees by laying down minimum standard, on the other hand in 1953 Mr N. L. Barrows stated that the fixing of a standard cale would be a disservice to the profession and in particular the smaller practitioner in the provinces. Mr D. V. House in 1956 seemed somewhat undecided; while agreeing that it would be impossible for the louncil to lay down any fair and reasonable scale propriate for all practitioners and all classes of work, he suggests that guidance can be obtained from the Treasury scale and goes on to deprecate underutting of fees. We all do, but if there is no minimum tandard – what is undercutting? Mr J. Perfect in

1960 indicated another somewhat indefinite line by saying merely that the appropriate fee depends on the type of work involved and special skills that have been required, without adhering too rigidly to the basis of time occupied.

.59. You will of course all be familiar with section P 3 of the Members' Handbook dealing with remuneration. I personally find it very bewildering that this section only consists of three pages of which only a few lines are devoted to suggestions as to the way in which members should base their charges, whereas twenty-two pages are devoted to accounting by electronic methods, twenty pages to the treatment of stock-in-trade and work in progress, and no less than forty-five pages are devoted to the contribution which the accountant can make to business efficiency. Surely if we can manage to produce so much erudition on such subjects as these we can afford a little more effort in the attempt at defining our own costs, charges and efficiency in these respects. Those in favour of regulating fees are not necessarily small practitioners who think that they need this measure of protection. In addition to quoting from published and public statements I have also carried out my own researches by means of data supplied freely by many practitioners that I have asked to help me - all of whom belonged to the class which I defined earlier as those in smaller practices. The result of these researches can be summarized in this way.

60. My questions were addressed to practitioners who formed a fair sample scattered over all the district societies, including the Metropolitan area, and I asked for the following information:

(a) Basis of calculating and charging fees over the range of:

Partners (doing partners' work);
Partner (doing work of qualified senior);
Qualified senior;
Unqualified senior;
Semi-Senior;
Articled clerk;
Others.

- (b) Details of any other methods used for charging fees.
- (c) Opinion on regulation of fees by the Institute and any other comments.

61. So far as the basis of calculating and charging fees was concerned I received replies that showed a remarkable consistency, and the most interesting thing was that the average coincided almost exactly with the Treasury scale. In a few cases the charging rate for principals was very much lower and at a rate which I would regard as most unrewarding. These were nearly all sole practitioners of not very long standing who usually accompanied their replies with the comment that if they were to charge any more they would be unlikely to get new clients and might lose

some they already had. Where I asked for the charging rate for a partner doing the work of a qualified senior I received some replies giving charging rates for principals doing the work of unqualified seniors and juniors. This is a vital comment which I trust will make a deep impression on the leaders of our profession. Another cogent remark which was made by more than one of my correspondents referred to the fact that mechanics' time charged for the repair of office equipment was generally at a rate which was equal to or more than that charged for a qualified senior — with nothing like the professional responsibility or skill carried by our own work.

62. On the matter of regulation of fees by the Institute opinion was divided. About a third of my correspondents stated that they were opposed to any form of regulation. Of the remaining two-thirds who stated that they would like to have some method of regulating fees almost all of them qualified their statement in one way or another.

63. The 'noes' generally felt that variations in quality and standard of performance made regulation almost impossible and several stated that if there were regulation they would probably have to cut the rate or lose work to unqualified competitors — including banks and solicitors.

64. In many cases the replies I had from the 'ayes' to some extent expressed the same sentiment - that although they would like to have fees regulated they feared the difficulties that would arise in meeting competition from practitioners who would not be bound by such regulations. Many of them felt that this would not be an insuperable problem if the regulation of fees were accompanied by the appropriate publicity, quoting in some cases the action taken in this direction by other professions - but here I think I am likely to find myself getting on to the same ground as the small practitioners questionnaire which it is my expressed intention to avoid. Some of my correspondents stated that the Treasury scale was better than nothing, that they found it a very satisfactory guide and tried as far as possible to charge this scale of fees - making, where appropriate, substantial increases over this scale for work of a special character. I was interested too that more than one reply I received put a case for a fee based, in appropriate circumstances, on turnover, pointing out that this was no different from the basis of calculating fees for much of the work done by solicitors, architects, auctioneers and others. Above all what was most heartening was that everyone who replied to my inquiry was most anxious to make a contribution to improving the status of the profession in general and of the small practitioners in particular and most of them were in favour of Institute publicity to this end. One of my correspondents produced a printed brochure of charging rates which had been agreed among the chartered, incorporated and certified accountants practising in his area.

65. In view of these opinions it seems wrong to

state so categorically, as has been done by some members of the Institute, that it would be a mistake to lay down a scale of fees. Inquiries which have been made over the last year or so in some district societies seem to indicate that by accident or design there is a reasonable degree of consistency in charges when classified by areas and size of practices. If this is so are we not entitled to assume that this is a good reason for saying that fees could be regulated, at any rate by laying down a minimum scale which would at least give the small practitioner an opportunity of knowing what his basic income ought to be? If he chooses to set his sights higher than this it is obviously up to him to justify the extra by ensuring that his clients receive the best possible service he is capable of providing, and of retaining in the profession the staff he wants instead of watching helplessly while they are enticed away by the higher financial rewards which they think they can get in industry. This is a complex relationship, and one on which from the professional point of view we are very far indeed from a practical solution.

66. I know that I am repeating what has been said many times before, but I cannot allow myself to forget that almost every other profession seems to have been able to regulate its fees – solicitors, auctioneers, valuers, architects, surveyors, stockbrokers and insurance brokers – and it is not without some significance that almost all the charges made by the foregoing are based on ad valorem rates so that they are covered against inflation and variations in standards of living. It is all very well for solicitors (and others) to state so blandly that some of their rates of charging have remained constant for many decades but this important factor is not so readily referred to.

67. The fundamental difference is, of course, that we have no convenient yardstick to which we can apply an ad valorem scale - so that if we are to have regulated fees they must be based on time rather than turnover - and this is where the difference is bound to appear between the large and the small, practice. If time rates are adequate for the small they are insufficient for the large practice, and if a rate based on some kind of ad valorem formula were satisfactory for the large practice it would produce only a microscopic fee for work at the smaller end of the scale. But I do not of necessity consider that this should end the matter. There is no doubt that the Treasury scale, criticized though it has been in many quarters, has been of very great assistance - on the other hand, the Friendly Societies' scale is a povertystricken affair, though many small practitioners are forced to accept it.

68. Other problems in the relationship with clients and the impact of fees beset the small practitioner in ways which are quite outside the experience of the large practitioner. One arises from his struggles to start a practice of his own, for in these days there are few young men with enough capital either to buy themselves into a practice or who can afford the more

arduous path of opening an office and waiting for the clients to arrive. Some of them will be fortunate enough to join an established firm in which they will be given a partnership but others who wish to become practitioners will have to take the hard road of building up a nucleus while otherwise employed. In doing so they will often be taking on work at fees which are unremunerative to established practices but nevertheless as much as the client can afford to pay. One hopes that in such cases the employer of the part-time practitioner is aware of what goes on but how else does a small practice grow sufficiently to reach the point where it can become full time and support its owner? If it were not for these adventurers many of the clients who come to them would relapse into having their work done by quacks. But on the other hand is it desirable that they should be giving their services in exchange for fees which are so much less than they could possibly charge if obliged to incur the expense of a regular office - and are they not forced to continue working for a low scale of fees even after they have expanded sufficiently to operate full time?

69. Not altogether unconnected with this problem are those arising from honorary and 'semi-honorary' work. I agree with the opinion expressed by Mr W. L. Barrows in his paper in 1953 that it is better that this work should be paid for at the proper rate and then if it is a charity the practitioner can demonstrate his sympathies by making a donation. The small practitioner is faced with far too many requests to give his services free to this or that local charity, sports and other clubs and local societies, and all too often these demands will be accompanied by glowing accounts of the wide field of prosperous professional activity that such associations will open up for him. In my experience and in that of many others with whom I have discussed the problem no statement could be further from the truth. Although it would obviously be unwise to undertake charitable work merely for the distant hope of reward, nevertheless it can be a matter of acute disappointment for the young practitioner that when as a result of a reputation for diligence which he has built up in this way he feels he is about to obtain a useful introduction, he discovers that after all, the more lucrative work has gone elsewhere. It may be even worse than this to have insult added to injury by the oblique remark that 'so and so can't have much of a practice if he can find time for all this work as treasurer of the club' - so I would say that it is far better that some charge is made for this work - it is human nature that the service which is paid for is more esteemed than that which is had for nothing. And when it comes to a question of service the small practitioner will do well to remember hat whether he does such work for nothing, for a dominal fee, or for a fair charge, he is none the less liable for professional negligence and he is acting very dangerously if he allows his quality of performance to be governed by the size of the fee or its absence. Even if no action for negligence ensues the effect on the practitioner can still be very damaging – and we all know that irregularities in this type of work, though generally small in degree, are far more numerous than in commercial audits.

70. Having said that the small practitioner receives these frequent demands to give his time and services for little or no reward. I must add that this is not a problem confined to his end of the practising scale. The members of larger practices are also called upon to give a considerable amount of their time, not only to honorary work, but also to membership of committees, the Council of the Institute, district societies, Government boards, official inquiries and so forth more often than not without any financial reward, and indeed frequently at some personal expense. What it is important to remember is that the larger practice is much more easily able to support this kind of activity. In a practice of a dozen or so partners the equivalent of one partner's whole time is less in proportion to that which may have to be given up in this way by a sole practitioner.

71. I would therefore like to sum up my own views on the question of fees somewhat in this way.

72. I do not accept that it is either undesirable or impossible to devise a scale of charges for professional accountants in practice. The existence of the Treasury scale and the fact that many practitioners use this as a guide for their everyday work is surely an adequate proof of this – and indeed this scale makes a distinction between charging rates for London and the Provinces. I believe too that the Institute had a large part in negotiating this scale so that presumably the knowledge and experience so gained could be usefully employed in devising an Institute scale.

73. The Treasury scale is based on time, but the much criticized Approved Auditors scale is based on turnover. It is at the lower end of this scale that real hardship is encountered. In its upper reaches fees are by no means inadequate. We also have fees based on turnover or what can almost be described as 'payment by results' in bankruptcies and liquidations. There is also evidence that local groups of accountants have been successful in standardizing charges—and there is plenty of evidence too that even without rigid control fees do tend to find a common level.

74. I do no understand therefore why there cannot be an official directive indicating scales of charges — even if this is only described as an Institute recommendation. Such a recommendation could with little difficulty indicate what loading should be added for specialized types of work or for particular districts which involve higher costs. Would it also create any real problem for a committee of the Institute to adjudicate in cases of alleged overcharging in the same way as I believe is done by the Law Society?

75. We claim to be the technical masters in the field of accountancy. We claim to advise other businesses and professions on the thorny and difficult problems

of how they should regulate their profits, remuneration, and the charges and costs which provide the raw material for such calculations – and yet when it comes to dealing with the same problem for ourselves we have practically nothing to say.

76. Regulation of fees is not of much use unless it is backed up by virile and effective publicity – or public relations. If we are to overcome the problem that so many smaller practitioners face – that of losing work because someone else will charge less – then those who employ our services must be convinced that in

the end they get what they pay for – and a low fee will merely mean low quality work. The Law Society and the London Stock Exchange both indulge in suitable publicity. They already both have the advantages of controlled membership and controlled charges – if they can find a use and justification for publicity how much more so can The Institute of Chartered Accountants – and is there really any valid argument against our joining the ranks of such eminently respectable company?

(To be concluded.)

# Weekly Notes

#### EXPORTS FROM THE COMMON MARKET

A REPORT published in Brussels this week by the Common Market Commission says that businessmen in the European Common Market are relatively pessimistic about the state of export orders. The only

exception is transport equipment.

This survey was carried out in a questionnaire on a monthly basis asking for the state of order books, export orders, stock, production and prices. The replies were asked for on the same basis as in the questionnaire sent out in this country by the Federation of British Industries which requests a simple statement of 'better' or 'worse' than the previous period. This monthly investigation by the Commission has so far obtained the co-operation of about thirteen thousand businesses.

Taking individual countries, 60 per cent of the replies from Luxemburg said export order books were weak, the corresponding total for Italy being 40 per cent. In Germany there is more satisfaction with the export order position although there has been some falling off in foreign business in recent months.

There is much more optimism about the overall order position when it takes into account both domestic and export business. Demand is high in industries connected with construction work although there has been a decline in demand from capital equipment sections. Among consumer goods the general upward trend is offset by poor returns from the textile industry. Particularly in France and Belgium, more business men expect a rise in output in the next few months than expect a decline. There is less optimism on this score in Italy than earlier in the year.

Prices are expected to rise in a number of industries but more business men expect a fall than a rise in rubber and paper. The most confident forecast of increased prices comes from Italy. German business men expect stable business prices on the whole.

One of the gaps in the survey is any reaction from the Netherlands where the survey is regarded as likely to give valuable information to competitors.

#### LAST SPECIAL DEPOSITS RELEASED

LAST week the Bank of England announced that it was going to release the last £81 million of special deposits belonging to the clearing banks and the Scottish banks.

On the one hand the authorities have made it clear that the special deposits frozen at the Bank of England are not to be retained just as long as some form of credit control is necessary as a brake on the economy. On the other hand they have certainly not given any suggestion that they will not be used again. The ratios have been dismantled within a six months' period. They started at a level of 3 per cent for the clearing banks and 12 per cent for Scottish banks and they have been dismantled in three stages while Bank rate has remained unchanged at 4½ per cent. It is well known that the Bank of England has had; serious reservations about the use of special deposits at all and has doubtless been anxious to take the earliest opportunity of showing that they are a device for limited and discriminating use.

The control of the monetary system is now left to more orthodox means, notably Bank rate. The banks are now in a stronger liquid position and there is certainly no need of additional restrictive weapons at present. To those who might say that it is anomalous to increase the banks' lending capacity at a time when the sluggishness in advances is due mainly to a lack of credit-worthy customers, it can be said that at a time when reflation is the policy it is more than anomalous to retain on the banking system restrictive controls which can only operate in one direction.

#### A NUMBER OF CAVEATS

IN a racy speech at a lunch given by the London and District Society of Chartered Accountants on Wednesday of last week, Baroness Burton strongly advocated the need for a greater degree of consumer

protection so that a powerful parallel phrase to caveat emptor might become caveat vendor. She illustrated her remarks with personal reminiscences of experiences in Parliament and in the market place and outlined a number of matters in which scrupulous standards by sellers should be observed. One of these was that titles and trade-marks should be realistic in relation to the nature of the goods being sold and that weights, descriptions and instructions printed on containers, wrappers and labels should be fully explicit. Another was that the advertising industry should do all in its power to ensure that advertisements which might be described as anything from misleading to downright dishonest were banished from the local newspapers which carried them.

The remedy, Baroness Burton thought, was largely in the hands of the shopping public – both by way of a firm insistence in getting the kind of goods it wanted and by being critical of all forms of fictitious price reductions and gift schemes organized ostensibly for the benefit of customers but actually for sales promotion purposes. She also thought that this was a good time for everyone with a vote to follow up the report of the Molony Committee on Consumer Protection by saying what they want because with the possibility of an election not far round the corner –

"... every political party loves them; every political party wants to take note of our needs, and what we do not get before a General Election we are unlikely to get after. That is sound common sense."

This bland statement may well be sound common sense but ethically, of course, it does not bear examination. To catch votes by making promises which are either specious or implemented only to suit the occasion is no more elevating than many of the doubtful practices employed commercially in selling goods and services so roundly condemned by the Baroness. It might therefore be appropriate for the ordinary consumer to add another warning to his shopping list and that is caveat suffragator.

## SUBSCRIPTIONS TO ECONOMIC LEAGUE DISALLOWED

In a test case decided on November 27th, Mr Justice Ungoed-Thomas held that a subscription made by a shipbuilding company to the Economic League, to be used for the general purposes of the League, is not made 'wholly and exclusively for the purposes of' the subscriber's trade (Joseph L. Thompson & Sons Ltd v. Chamberlain). The company did not subscribe to the League direct but it did subscribe to the Shipbuilding Conference which contributed annually to the Economic League and the Revenue objected to the deduction of that part of the company's subscription to the conference which was in effect passed on to the Economic League.

The League's primary object was

to promote and improve the knowledge and study of

economics and of other industrial and social subjects affecting the interests of the community, and of members thereof, from the standpoint that

- the preservation of personal freedom and free enterprise is essential to national well-being;
- 2. while maintaining its complete independence of any particular party the League must actively oppose all subversive forces, whatever their origin and inspiration, that seek to undermine the security of Britain in general and of British industry in particular'.

The League provided pamphlets connected with shipbuilding and exposing the communist way of life, for the Communists were especially active in the engineering and shipbuilding trades. There was however no real or imminent threat of nationalization in the building industry. The learned judge rejected the company's argument that its statement that it made the subscription to the conference wholly and exclusively for trade purposes should be accepted, regardless of the stated objects of the League to which the conference had then contributed. The case was distinguishable from Morgan v. Tate & Lyle Ltd (33 A.T.C. 184) where there had been an imminent threat to deprive the company of its undertaking. He dismissed the company's appeal with costs.

#### IMPACT OF TAXES AND SOCIAL BENEFITS

IT is a cliché that in the Welfare State the State takes money from us in various ways with one hand and gives it back (more or less) with the other. An article published in the November issue of Economic Trends presents estimates for the first time of the impact of taxes, direct and indirect, and of a wide range of State benefits, whether received in cash or in kind, on groups of households of different sizes, in various ranges of income, in 1957 and 1959. The Central Statistical Office has prepared the estimates, mainly from data collected in the continuing family expenditure survey which is used primarily to revise the weights of the Retail Price Index.

The article contains two graphs, one for 1957 and one for 1959, which bring out the 'break-even' point for various types of households in various ranges of income between £195 and £1,950 per annum. The break-even point is the point at which income before taxes and before benefits equals the income after deducting taxes and adding the benefits. In 1957, for a household consisting of one adult (excluding adults whose main income is a State pension), the break-even point was only £210; and for two adults, it was £390. The corresponding 1959 figures were £280 and £450. For households with two adults and three children, the break-even point is not easily calculated for 1959; for 1957 it was well above £1,000; no doubt largely because of free schooling, family allowances, and National Health Service. Incidentally, the compilers have assumed that the children would take advantage

of the free schooling, which for the purposes of a small sample in this comparatively low income range is probably fully justified.

Original income is defined as including income in kind but before receipt of any direct or indirect State benefit (such as family allowances, pensions, unemployment pay, etc.) and before deduction of any direct or indirect taxes. Direct taxes are confined to income tax and surtax and all contributions to National Insurance and National Health services. (Incidentally, one wonders how the households in the sample came to be paying surtax). Indirect taxes are confined to rates, customs and excise duties, motor vehicle licences and (wonderful to relate) stamp duties. Taxes on raw materials are ignored; as are such 'benefits' as the cost of national defence and National administration.

To anyone familiar with direct taxes, the article

seems to devote a fair amount of space to pointing out the obvious, for example the more children one has, the less tax one pays. The presence of children in the household, it is found, does not very materially increase the household consumption of tobacco and alcoholic drinks. What is particularly interesting is the statement by these experienced statisticians that a characteristic feature of all family expenditure surveys is the failure, even of people who are cooperating, to record their full expenditure on drink and tobacco. Comparison of the total yield of the taxes on these commodities, with the amount of them which people admit having consumed, shows that on the whole, people fail to record about half their expenditure on drink and about a quarter of their expenditure on tobacco. Can it be that the missing proportion is consumed 'wholly and exclusively for the purposes of' trades, profession and vocations?

# This is My Life . . .

by An Industrious Accountant

CHAPTER 149

BEN is the nice elderly chap in our payroll section who always seems to be deeply immersed in other people's troubles. They come in to see him about amendments to their P.A.Y.E. allowances, or to have their insurance premiums settled by monthly deductions from their salary cheques, or to wangle small loans to be repaid by instalments. This latter procedure is actually *ultra vires*, but I follow Nelson's example and turn a blind eye, provided the grubby little I.O.U.s in the cash box don't get too numerous.

I was somewhat worried that our auditors might object to these advances actually – bearing in mind the tough representative of theirs who used to be very pernickety in the old days – but times have changed. I asked our present man his views on the subject, but he only laughed. 'Have a heart, old chap,' he expostulated. 'You can't leave an employee in a jam for a temporary couple of quid, and Ben is absolutely reliable and scrupulous.'

Our roles seem to have changed around, I reflected; he was cribbing my lines. However, Ben's judgement has never yet been in question. So I leave it to him.

Recently though, Ben hasn't been looking so well. He seems worried over his future. He told me once that he hadn't saved much, and his pension would hardly bridge the gap. Moreover his wife's been ailing for years and he keeps his sister, too. The worried eyes in his gaunt sallow face spoke for themselves.

Last week he wandered rather aimlessly into my room and sat down limply. 'It's this inflation, sir,' he said. 'My bit of money, you know, it isn't what it used to be.' I encouraged him in bluff, hearty style, but his stare was curiously blank. 'They take it while I'm not looking,' he whispered, looking behind him nervously. 'They keep on peeping at me round my desk, lots of them; I can see their eyes. It's terrible to be followed all the time.'

I suggested a nice hot cup of tea and pressed my bellpush surreptitiously, but my secretary wasn't at her desk. Ben's mouth twitched spasmodically; he leaned forward across my desk. 'They'll take my money, you know; some of it's missing already.' He picked up my long paper-knife and fingered it intently.

I spoke slowly and sympathetically, trying to stare him into submission, my thumb hard on the bellpush. It pealed unheard in the outer office. 'They watch us all with their horrid little red eyes; they'll take all our money,' Ben said tonelessly. 'There's one of them now!' He stabbed erratically at my 'In' tray, scattering its papers.

To say that I was disconcerted is putting it mildly. It was rather difficult to move quickly in my heavy swivel chair – and on impulse, I suddenly pushed over my laden three-tier 'Out' tray. It fell with a crash and Ben started violently. 'Beg pardon, sir,' he said blinking. 'Did I knock it over?' He looked vaguely at the paper-knife and putting it down, bent helpfully to retrieve the contents of the trays.

We chatted for some minutes about contributing to the Christmas charitable appeals as early as possible; he was the familiar old Ben again, kindly and thoughtful.

But is he likely to have another of these sudden attacks? Both the personnel director and our doctor feel that I exaggerate; Ben's essentially harmless they argue; just keep an eye on him – after all, two helpless women depend on his earnings. But what if he goes berserk and assaults someone; I'll feel merally responsible. Should I insist on his going on protracted sick leave to protect our other employees?

# Finance and Commerce

#### **Equalization Reserve**

THIS week's reprint is of the accounts of Kardomah Ltd, for the year to July 7th, 1962. The company operates a chain of coffee houses and cafés in London and many of the principal cities; Liverpool and Manchester being well represented as befits a business based in Liverpool. It is also concerned in the blending and distribution of teas and coffees. The company is old-established; this year's annual meeting in Liverpool is the ninety-fifth and there is now a fourth generation on the board. The accountancy profession is represented in the person of Mr F. O. Harcourt Williams, F.C.A., one of the two managing directors.

What first caught the eye as the pages were turned was the dividend equalization reserve investments at the foot of the assets side of the balance sheet. It is not often these days that an opportunity presents itself of giving accounts which include dividend equalization. The whole idea of equalizing dividends with the aid of a special reserve, once quite common, has faded with the years; balance sheets used to contain a string of reserves for this or that specific purpose, but the accounting practice has evolved of concentrating under two reserve headings: capital and revenue.

What may have brought about dividend equalization in the past was the use in a business of money specifically set aside, its specific purpose thus being negatived. It has been known for a dividend equalization reserve to be swallowed up in a capital reconstruction. The special point in the Kardomah case is that the reserve investments are there to back the reserve.

#### Higher Dividend

Mr J. E. Hadfield, Kardomah's chairman, draws attention to the fact that the profit available for dividends and appropriation, after deduction of income and profits taxes, this year is £82,009, as against the previous £68,858. He notes that the interim dividend was 12 per cent compared with 11 per cent and that 'taking into account our restraint last year', 18 per cent against 15 per cent is recommended for the final dividend, giving a total distribution of 30 per cent against 26 per cent last year.

The increase, he says, may also provide some interim return on the extra capital now known to be

employed in the business as a result of the revaluation of the freehold and leasehold properties in 1961. The board, says the chairman, had hoped 'in one way or another' to bring shareholdings more into line with these new figures but consider that such action at present was not likely to be of immediate advantage to shareholders. The objective, however, will not be lost sight of.

Meanwhile, in addition to the higher dividend, there is I per cent from profits which are not liable for taxation. This comes from the contingencies reserve and its effect will be seen in Note 2 in the notes on the accounts included in the reprint.

#### **Not Evident**

What the 'extra capital now known to be employed in the business' amounts to does not seem to be evident from these accounts. One of the points we continually stress is that the balance sheet view should invariably be as up to date as possible. It may not always be feasible or even advisable to write in the latest asset values, but it should be possible to include the information in a note preferably below the balance sheet item.

In this connection, it is interesting to read in a review of these accounts given in *The Investors' Chronicle* that the net equity assets amount to £1,468,692, equal to 478 3d per Ordinary share — with a note explaining that the figure is 'allowing for the 1961 revaluation of properties'.

Mr Hadfield also notes that 'although the total amount provided for the depreciation of fixed assets is the same as last year, we have dealt with it differently'. The fifteen-year period over which the café installations are written off, he explains, has been lengthened to twenty years, thus reducing the annual amount required for the purpose.

The saving is charged against profits separately and has been allocated to the development reserve. By following this practice, Mr Hadfield says, it is hoped to build up the credit on that account to a sum sufficient to meet expenditure on future obsolescence in the cafés. Eventually, the appropriations to the development reserve that have hitherto been necessary will not be needed. But that, he adds, will not deal with the backlog of expenditure on which they are now working and appropriations for this must continue for the present.

#### Take-over Bid

Any argument about the true asset worth of the Kardomah equity, however, has now been settled. The Forte's (Holding) group is making a cash and share bid for Kardomah, worth 65s a share. The Kardomah directors and their families, controlling about 60 per cent of the ordinary shares and 29 per cent of the 'A' have agreed to accept the Forte's bid, the terms of which were announced on Tuesday of this week.

KARDOMAH LIMITED AND SUBSIDIARY COMPANIES

a

# ACCOUNTANT

Conso	olidated Profi		and Loss Appropriation Account	count	Notes Forming Part of the Accounts at 7th July, 1962	July, 1962		
		Year Ended 7th July, 1962				Kardomah Limited		Group
¥	1301 F	Trading Brofft including rests received	y y	41	(1) Development and Adventising Basessa	ţ. ţ	<b>4</b>	ų
		rking			Balance from 1st July, 1961	33,659	39	39,659
173,615	,	completed investment Income		194,333 30,539	Add the unexpended balance of the year's advertising allo- cation already deducted from the trading profit Transfer from the Profit and Loss Account	1,069	0	1,069
203,943	,			224,872	Proposed appropriation	19,000	' <b>8</b>	9,00
		Less General Charges:			Less Development expenditure during the year	59,823 22,964	23	75,725
	1,548 18,986	Audit Fees Debenture Interest—Gross	1,748 18,146		Balance at 7th July, 1962	36,859	123	52,761
	2,900	Nemuneration of Directors: Fees Other Emoluments	2,900		(2) Constinuous Bonnans			
	33,400	Amounts written off fixed assets Allocation to Development Reserve	26,210 6,997 33,207		Add Profits less losses on the sale of investments	50,923	23	53,714
71,161				71,259	Dividend out of profits not liable to income tax received from a Subsidiary Company Sale of a lease—net proceeds (see Note 5)	1,550	_	1,572
f32,782		Net Profit for the Year before providing for Taxation		153,613	Compulsory termination of two leases—net compen-	6,726	•	6,726
•		Less Taxation on the Profit for the Year:	;		Less Cost of objecting to the proposed expropriation of	60,583	•	64,216
63,924	48,195	Profits tax Income tax	52,263	. 71,604		1,134	1,134	
						1,550	1,550	2 684
68,858	-	Balance of Profit Less		82,009	Balance at 7th July, 1962	57,899	1   3	61.532
8,975		Transfer to the Debenture Redemption Sinking Fund	•	6,975				
					(3) Dividend Equalisation Reserve			
		Balance of Profit available for Dividends and Appropriations:		•	Balance from 1st July, 1961 Add Profits less losses on the sale of investments	118,860 386	8	118,860 386
61 883	43,277	Attributable to — Kardomah Limited Subsidiary Companies	53,012 22,022	75.034	Balance at 7th July, 1962	104,246	104,246	İ
	•	Less	-			,000 119,246		119,246
	5,053	Dividends less income tax: 33 per cent Cumulative Preference Shares "A". Ordinary and Ordinary Shares— Invertin Dividend of 12 ner rent	5,053		(4) The market value of the quoted investments was as follows:		ľ	1
	10/) 2: : (2:	⋖			General Account Dividend Equalisation Reserve Account	419,670	512	512,423 104,794
	-	and Ordinary Si	-		(5) A fully depreciated lease (cost £652) was sold during the year.			
•	14,241 (15%)		17,089		(6) Balances in foreign currencies have been converted into Sterling at the	the		
47,737	18,000		28,000	. 61,534	tollowing market faces— Fixed Assets—at the rates ruling at the dates of acquisition. Current Assets and Liabilities—at the rates ruling at the 7th July.	uľy.		
14,146		Balance for the Year, to be carried forward		13,500	1962.			
		Add Amount brought forward from last		2	(7) The Directors of Kardomah Limited have received no fees or remunera- from the subsidiary companies.	era-		
£166,129	•	year Unappropriated Balance		£179,629	(8) By a Trust Deed dated 31st August, 1954, Kardomah Limited guaran- tees the principal and interest on the outstanding Debenture Stock	ran- ock		
	į				issued by Kardomah (Properties) Limited.			

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COMPANIES CONSOLIDATED BALANCE SHEET, 7th JULY, 1
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41		18,481	-	1,014,457	119,246	2,052,384
44	10,338	241,609	325,573 98,076 39,671	1,073	13,222	
٠ 41	5,322 5,322 642,950 36,984 679,934 13,200	42,671 536,186 578,857 337,248	514,402			744].
	Fixed Assets Goodwill at cost less amount written off Less Subsidiary Companies—Profits, less losses, before the shares were acquired Freehold and Leasehold Property: At valuation made on 24th June, 1954 At cost Less Amount written off (see Note 5)	Plant, Fixtures, Utensils, etc. at Head Office and at Branches:  Net book value, at 29th September, 1945, of assets brought into use before that date Purchases since, at cost, or on order  Less Sales Amount written off 320,072	Current Assets  Stock-In-Trade at Head Office and Branches, including forward purchase, at cost  Debts Due, less Reserve for Bad Debts Sundry Deposits and Payments in Advance Investments at cost—General Account (see Note 4): Quoted Trade	Tax Reservo Certificates Tressury Bills and Short Term Deposits Cash in hand, in the hands of agents and at banks	Dividend Equalisation Reserve Investments Quoted Investments at cost (see Note 4) Treasury Bills Cash at Bank, awalting investment	NOTES ON THE ACCOUNTS are set out on page [744].
ı,	15,660 5,322 642,950 37,636 680,586 12,532	42,671 468,191 510,862 15,848 295,182	376,313 113,155 34,745 300,030	50,000	74,481 34,977 9,402	· .
1961	10,338	. 199,832		1.036.711	118,860	£2,033,795
4		7 1,186,264	6 399,525	447,693	0 18,902	£2,052,384
	200 200 200 375,000	209 221 246 761 532 29 808,997	14,486	42,335	17,089	ţo-
	Capital and Reserves Capital Authorised and Issued: 220,000 33 per cent Cumulative Preference Shares of £1 each fully paid up 320,000 "A" Ordinary Shares of 5/- each fully paid up 300,000 Ordinary Shares of 5/- each fully Reserve (Capital): Premium on Shares Issued	Reserves (Revenue):  General General General General General Debenture Redemption Sinking Fund including profit on redemption Taxation in excess of current liability Dividend Equalisation (see Note 3) Development and Advertising (see Note 1) Sp.76 Contingencies (see Note 2) Profit and Loss Account—Unappropriated balance	Deb	debenure interest  Taxation—Due or accued to date  Dividends 32 per cent Cumulative Preference Shares —Dividend arranel less income tax	"A" Ordinary and Ordinary Shares: Final Dividend of 18 per cent less income tax Payment of 1 per cent out of profits not liable to income tax	JAMES E. HADFIELD D. C. L. VEY D. CAMERON-SWAN F. O. HARCOURT WILLIAMS
1961	220,000 80,000 75,000 375,000	283,509 44,156 57,703 118,860 39,559 53,714 \$66,129	422,808	43,093	14,241 (15%) 1,550	62,033,795

#### CITY NOTES

RACTS of the present have temporarily overcome hopes and estimates for the future in the equity section of the stock-market. Rising unemployment—and forecasts of a further rise—signs of slackness in retail trading and the plain fact that share prices, in their rally, had got a little ahead of events, have combined to bring, if not dullness, then a certain staleness to the equity sections.

There is, however, a disposition amongst London brokers to look optimistically at 1963 equity prospects on the assumption that, by the middle of next year, Government re-expansion moves will have begun to bite. Investors, on the other hand, seem content to wait for signs of the biting rather than to anticipate them.

Another stock-market factor is a sizeable new issue rush which is tending to absorb investment funds normally available for market investment purposes. A considerable proportion of current new offers are of fixed interest investment stocks and in this end of the market there are still hopes of an eventual further reduction in long-term interest rates.

#### RATES AND PRICES

Closing prices, Wednesday, December 5th, 1962

Tax Reserve Certificates: (interest rate) 25.8.62 21%

zuz Roscive Corumentes.	(Miccrest 1ace) 23 0 02 22/6					
Bank	Rate					
Oct. 27, 1960 $5\frac{1}{2}\%$	Nov. 2, 1961 6%					
Dec. 8, 1060 5%	Mar. 8, 1962 $5\frac{1}{2}\%$					
July 26, 1961 7%	Mar. 22, 1962 5%					
Oct. 5, 1961 $6\frac{1}{2}\%$	April 26, 1962 $4\frac{1}{2}\%$					
Treasu	rv Bills					
Sept. 28 £3 128 8.42d%	Nov. 2 £3 16s 11·48d% Nov. 9 £3 17s 1·60d%					
Oct. 5 £3 125 4.13d%	Nov. 9 £3 175 1.60d%					
Oct. 12 £3 12s 3.07d%	Nov. 16 £3 15s 11.09d%					
Oct. 19 £3 145 8.22d%	Nov. 23 £3 14s 9.03d%					
Oct. 26 £3 17s 2.03d%	Nov. 30 £3 135 9.47d%					
Mones	Rates					
Day to day 27-4%	Bank Bills					
7 days $2\frac{3}{4} - 3\frac{7}{8}$ %	2 months 37-315%					
Fine Trade Bills	3 months 3 18 %					
3 months 5½-6%	4 months 3 3 3 18 %					
4 months 5½ 6%	6 months 38 3 18 %					
6 months 5\frac{3}{2} -6\frac{1}{2}\%	0 months 38-4/0					
Foreign Exchanges						
New York 2.80 11	Frankfurt 11.21					
Montreal 3.01 32	Milan 1740					
Amsterdam 10.00\$	Oslo 20.02 }					
Brussels $139.38\frac{1}{2}$	Paris 13.73½					
Copenhagen 19.343	Zürich 12.09§					
Gilt-edged						
Consols 4% 69 &	Funding 3% 59-69 901					
Consols 2½% 44 18	Savings 3% 60-70 88\{					
Convision 51% 1974 1001	Savings 3% 65-75 81 18					
Conversion 5% 1971 1013	Savings 2½% 64-67 91 16					
Conversion 3 % 1969 93 8	Treas'ry 51% 2008-12 971					
Conversion 3½% 61 ½	Treasury 5% 86-89 927					
Exchequer 5½% 1966 102½	Treasury 3½% 77-80 79%					
Funding 5½% 82-84 102	Treasury 3 1/2 79-81 801					
Funding 4% 60-90 944	Treasury 2½% 44½					
Funding 31% 00-04 601	Victory 4% 97#					
Funding 3% 66-68 923	War Loan 3½% 60 13					

# Correspondence

The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

#### Changes in the Purchasing Power of Money

SIR, — I have read 'Realist's' reply in your issue of December 1st to my letter in the previous issue; but I am not sure that his formulation of my example carries Mr Parker's argument forward. 'Realist' makes four assumptions, two of which—those lettered (b) and (d) are scarcely consistent with the assumptions which I made. My assumptions (implicit, if not explicit) were that the replacement provision was made over the life of the machine and not all in the year of renewal, and that depreciation was charged on the estimated net replacement cost, not the historical cost.

Perhaps I ought to enlarge on the use of the replacement cost. Many United Kingdom companies - some hundreds, I believe, including many of the largest, vide, for example, I.C.I.'s annual report for 1958 - now revalue their fixed assets from time to time to take account of increasing replacement costs. This necessitates an increase in the depreciation charge to a level consistent with the current replacement cost. If under 'traditional accounting', a firm can spend the whole of its cash income in a year on replacement of plant, and yet come to the conclusion that it has made a net profit, as 'Realist' argues, then clearly there is something wrong with traditional accounting. But the assumption that the firm finds the whole of the replacement cost in the year of replacement is 'Realist's', not mine.

'Realist's' alternative scheme to take into account changes in the purchasing power of money is not convincing. It may well be that I do not understand it; but what he seems to be doing is to inflate items shown in traditional books at original value to their value in terms of current £s, and to deflate items shown in traditional books at current value to the £ of the year of acquisition. If this is so, then I suggest there is rather more than double counting in his scheme

I have another point on this proposed scheme. If equity capital is to be inflated by reference to the fall in the purchasing power of the £, then, to be consistent, the book value of fixed assets should be similarly treated. As I have said, this would necessitate charging depreciation on current replacement cost, and such revaluation would therefore invalidate his historical cost assumption.

'Realist's' alternative scheme suggests that a word of warning is necessary. Any firm contemplating any such scheme would be wise to adopt a standard year – preferably the current year – for all valuations and revaluations. There is a lot to be said for historical or original values, but where revaluation is thought

to be necessary, the value of the  $\pounds$  in a particular year should be adopted for all such revaluations. If equity capital is to be inflated to its current value, then investments should be entered at their current value and not deflated; and it should also be kept in mind that consistency and good accounting may demand the revaluation of other items as well as those first picked on for such treatment.

I am not sure what is meant by the first sentence of 'Realist's' last paragraph. The second sentence seems to indicate that he accepts my view that where bonds are acquired for the ultimate repayment of a loan, a revaluation of the bonds would be superfluous.

Yours faithfully,

Bushey Heath, Herts

E. J. BROSTER.

#### **Training of Articled Pupils**

SIR, – We have for a long time felt the serious need of some full-time course at an early period of articles to expedite pupils' academic training so that practical work can, as soon as possible, have more purpose and

meaning. Something shorter than we had envisaged has recently been introduced by the City of London College, and after having the experience of sending two pupils to the first course we should like to congratulate those responsible both on initiating the course and on its content. It seems to us to be valuable for any three- or five-year pupil who is well on with a preliminary correspondence course.

Yours truly,
WHITEHILL MARSH JACKSON & CO,
London WCI Chartered Accountants.

#### Sale of Audits

SIR, – We have a block of audits for sale, including some requiring an auditor approved for the purposes of friendly societies, etc., and we should be grateful if any of your readers could give us a reasonable idea of the amount we should obtain, based on a number of years' purchase price of the gross fee. It is a provincial practice.

Yours faithfully,

CHARTERED.

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

#### SPECIAL GENERAL MEETING

A special general meeting of members of The Institute of Chartered Accountants of Scotland was held on November 23rd, at Chartered Accountants' Hall, 218 St Vincent Street, Glasgow. Mr James C. Stewart, c.A., the President, was in the chair.

#### PRESIDENT'S ADDRESS

Addressing the meeting, the President said:

On the occasion of the half-yearly meeting, when no printed report is circulated to members, it has been the custom for the President to present to members



Mr James C. Stewart

some report on the activities of the Council since the date of the annual meeting. This year there has been a great deal of activity and cannot in the time available cover the whole of it. On the domestic side members are alof the ready advised of the main features, because we had a special general general meeting in June at which various changes in the Institute's rules were made and at which certain other matters were reported. Members

will recall that at the same time circulars were issued dealing with other matters on which the Council had reached conclusions affecting the whole membership. Most of these proposals arose from the Report of the Policy Committee, which covered such things as apprentices' remuneration, admission and registration fees, examination fees, the issue of *The Accountants' Magazine* to members, and professional charges. The necessary changes in the rules to give effect to certain of the proposals have been approved by the Privy Council and they are now in force. Arrangements are in train for the issue, as from January next, of the *Magazine* to all members of the Institute as part of its general services. There has been an appreciative response to the circular which was issued dealing with professional charges and some useful meetings have been held in various districts. Others, which I hope will be equally useful, have been arranged.

A new Treasury scale of fees for accountants has come into force, effective as from April 1st, and that should also be of help to members who undertake work for Government departments.

#### **Invisible Exports**

In addition to these matters the ordinary day-to-day services to members and the administrative work which is necessary for running an Institute of this size has gone on. These constitute what one might call the invisible exports from headquarters to the members and, just as in our country's trade the invisible exports play a very considerable part, although only those connected with them may see what is going on, so in the Institute these services do account for a great deal of hard work by a great many people, and they do have a great deal of advantage for the members in general, although they may not appear definitely to affect them as individuals. The visible exports in the way of paper have increased also. We hope that with the issue of the Magazine to all members the multifarious circulars

which have to be issued will perhaps be reduced in number and that there will be more effective contact between the Council and the membership generally through the medium of the *Magazine*. A reduction in this paper work would be welcomed by the Council, and also by the secretariat and, I am sure, by the members, but it seems to be a flood which it is impossible to escape from or even to build any kind of ark on which to float away.

It may interest you to know that *The Accountants' Magazine* is very highly regarded in professional circles and that frequent extracts from it and references to articles in it appear in the professional Press both in Britain and overseas. Together with other activities of the Institute here it helps to maintain our good name and standing abroad.

#### **Courses for Institute Members**

The Council provides many other services for members by way of courses, discussion meetings and other activities. The Summer Schools, of which the tenth was held in the summer at St Andrews, are now a very well-established feature of the Institute's activities. I hope that many of you new members will take advantage of that opportunity to meet some of the older members, to come there and give the older members some new ideas and to acquire what a great many of those who have attended previous schools have acquired – the feeling of belonging, the feeling that this Institute is really something that has got a personality and that there is companionship to be had among the members.

There have been this year two E.D.P. courses, one a fourth version of the elementary introductory course which now seems to be established as a regularly recurrent feature, a course which I think most people would benefit from attending even if it by no means serves to make them experts in this field. I myself was compelled by reason of my office to attend the last one – that was my feeling when I went there – but when I came away I was extremely glad that I had gone, and I think I understand just a little of what goes on inside the little black boxes. At the advanced course I merely attended the opening dinner, but I gather that the course was very much appreciated by those who attended and it is hoped that it may also become a recurrent feature.

In addition to these courses we have had in Glasgow the usual course in mechanized accounting and there has just been started a course in rapid reading, which is a very necessary thing if we are to keep up with the flood of paper to which I have already referred.

#### Other Domestic Activities

We have set up a research committee which is presently considering the best method of operating and what type of project is likely to be most helpful to members. Research projects take some little time before the results become available to members, but you can take it that the Institute is now actively engaged in this field.

Tutorial classes must also be regarded as services to members, because under present-day conditions they form a necessary part in the training of the apprentices which, in the more leisurely days of half a century ago, could all be done in the offices, but which cannot now be given in that way. Therefore the provision of these classes by the Institute is not only a service to the

apprentices who attend them but is definitely a service to the members whose apprentices are able to get part of their training there.

In various centres also there are discussion groups and other types of meetings which help to get the membership together.

Another branch of Institute activities is what one might call relations with Government departments and public relations. There have been discussions with the Inland Revenue department on the Finance Bill and other tax matters, and consultations with other Government committees and departments on various subjects.

In quite a different type of venture the Institute collaborated with a number of bodies in producing a booklet on services available for management in Scotland. This was widely distributed to the members of the Institute and to the members of the other participating bodies, and was very well received by industrialists and commercial people generally. The part played in editing the booklet by the Institute's staff and particularly by Miss Dunlop was very much appreciated. This type of co-operation is something which I think should be encouraged.

We are also participating directly and indirectly in the National Productivity Year, which was inaugurated earlier this month, and we hope that people will realize that chartered accountants have a part to play in promoting productivity and the efficiency of the business enterprises which they serve.

#### **Overseas Relations**

Leaving this country, there has been a great deal of activity during these last six months in the field of foreign relations. Now this is a field in which many members may think they have little or no interest, but it is not so. It is a field which concerns energone. It concerns people in two ways: those who have a direct interest just now in practice on the Continent or elsewhere throughout the world - and a great many of our members are engaged in practice outwith the United Kingdom - and those who practise in this country in that, if and when the United Kingdom joins the Common Market, there will be a great many problems arising over the exchange of accounting services between British accountants and continental accountants. Then it concerns us all in a different way in that, if we are to maintain our position as leaders of accountancy thought in the world, we must keep abreast of what other people are thinking and of what other people's methods and practices are. It is only by meeting not only European accountants but also accountants from all over the world that we can hope to do that. While, therefore, it may seem to some people that attending conferences and committee meetings in various very pleasant spots in Europe is something of a fringe benefit for the Secretary and the President, it is not really so. It is a very practical and essential part of the Institute's work.

The main event in this international field was the Eighth International Congress, which was held in New York in September. The number of members of our Institute who have attended these international congresses seems by some curious process to increase the farther away the congress is held. At the 1952 Congress, which was held in London, there was a very small number of Scottish members present—it is not

terribly exciting or interesting to go to London. In 1957 the Congress was held in Amsterdam and there was a somewhat larger attendance - Amsterdam is a very pleasant city and it is rather more exciting to go there perhaps than to London. The 1962 Congress was held in New York and there was yet again a very great increase in the numbers. There were altogether, including the ladies who accompanied them, some two hundred representatives of the Scottish Institute present in New York. Whether these members came back any better informed technically about the profession I would not like to say, but they came back, I am quite certain, better able to exercise their judgment in accounting matters as a result of the discussions, formal and informal, in which they had taken part during that week, and they came back with much widened horizons of thought, something of very great importance in our profession.

#### The European Congress of Accountants, Edinburgh, 1963

The next of such congresses will be held in Edinburgh next year, the European Congress of Accountants. I hope that what I have said about the members who attend being in inverse ratio to the distance will not be taken as justifying a refusal by the Glasgow members to travel to that exciting place, Edinburgh. The interest which is being taken in this Congress all over the Continent is quite amazing. Wherever one meets Danish, Dutch, French, German, Norwegian, Swedish accountants, or indeed accountants from any of the Western nations of Europe, one hears, 'Now we hope to be in Edinburgh next year', 'We hope to meet you again in Edinburgh next year', and so on. I do not know whether we shall have to hold overflow meetings in Glasgow to accommodate all the people who seem to want to come, but it is very encouraging to those concerned with the organization of the Congress to snow that there is such enthusiasm for it, and I hope that the members of the Scottish Institute, which is acting as the host body, will support it in great numbers and that they will take every opportunity to get into personal contact with the accountants from overseas who will be there, and I am sure that they will find his personal contact stimulating and that they will gain a great deal in knowledge of the conditions in which the profession is carried on in different places ind much background knowledge which will be useful n their day-to-day work thereafter. It should also be sorne in mind that this European Congress will provide n opportunity for us to show these visitors, who are seople with the same kind of influence in their own countries as our members have in ours, and that is not nconsiderable, what Scotland has to offer in the way of ttraction both to the tourist and to the business man.

#### Conclusion

will close with one reflection on the New York Longress. As one might almost have expected in America, there was great stress laid on size and one ould very easily become obsessed and oppressed by ize—the size of the Congress itself, the size of some f the accounting firms which were represented there, he size of the business enterprises whose leaders ame and spoke to the Congress—and one might ome away saying, 'Well, the Scottish Institute is retty small beer compared with this kind of practice

of accountancy and this kind of scale of industry'. But this is, I think, quite the wrong attitude. The Scottish Institute has a great deal to contribute to the profession. It may not be among the giants in size, but each of our members is quite as competent an accountant as his counterpart in any of the other professional accountancy bodies and we have a great deal to contribute provided we retain our national pride, and our pride in being a member of our Institute; we must retain our independence of thought, and we must have the courage to form our own judgments.

#### PRESIDENT'S ADDRESS TO NEW MEMBERS

At the meeting, 224 candidates were admitted to membership and 113 of the new members were present.

The names of the winners of awards and prizes in respect of the 1962 examinations held by the Institute were read out, and the prizewinners received their awards from the President.

In the course of his address to the new members the President said:

You are entering your professional careers, as I have said, in a period of change - a period of political change. In Europe, Africa, Asia, America and all over the world political changes are causing feelings of uncertainty which affect not only the political life of the countries concerned but the industrial and commercial life of the whole world, and these are some of the things which you have to learn to live with. It is also a period of scientific change: the introduction of atomic power; new conceptions of astronomy; the nature and the size of the universe and how one should be able to get about it. There is social change: a loosening of religious and family ties which creates unrest in most countries and in the midst of which I think that Institutes such as ours, although that is by no means their primary purpose, can serve as stabilizing influences; and, of course, bearing most directly on the object of your attendance here today, there is professional change.

There are new techniques being introduced and new conceptions of the conditions under which we should work, of the extent of Government control or the extent of institutional control over the activities of our members; changes in the conception of the auditor's role and of the functions of accountants generally. In the midst of all these changes you must neither stand bewildered nor cling despairingly but anquestioningly to what you think you have been taught during the course of your studies. You must be prepared to think and judge for yourselves, to seek advice, which will be willingly given you by your elders, but to reserve the right to question or reject that advice. The training you have received has been designed as much to fit you to do this as to acquaint you with merely technical skills and with the statutory requirements under which you will carry out your duties. If it has not given you that ability then, in so far as it has not, it has been a failure even if you have passed the requisite examinations.

Blown upon by these winds of change, which sometimes to your elders seem to be positive gales, you will, I hope, find in your membership of the Institute a haven of shelter from the merely destructive blasts and a port from which you may sail to prosperity before the fresh breezes of changing opportunity.

# Netherlands Accountants' Year-Day

#### MERGERS AND INDUSTRIAL CHANGE IN EUROPE

#### Dutch Experience in the Common Market

RGANIC change in European industry and business problems arising in mergers were the subjects discussed at this year's Accountants' Day Conference of the Nederlands Instituut van Accountants held in Amsterdam.

The President of the Netherlands Institute, Mr H. C. Treffers, was in the chair at the conference sessions in the Concertgebouw, a building which evokes pleasant recollections for the many overseas accountants who attended the Seventh International

Congress there in 1957.

In addition to some six hundred members of the Netherlands Institute, there were present accountants from Austria, Belgium, Denmark, France, Germany, Great Britain, Ireland, Luxemburg, Sweden, Switzerland and the United States of America. The Institute of Chartered Accountants of Scotland was represented by its President, Mr J. C. Stewart, c.a., with Mr E. H. V. McDougall, Secretary; the English Institute by Sir Thomas Robson, F.C.A., and Mr F. M. Wilkinson, F.C.A., Joint Secretary; the Irish Institute by Mr R. E. McClure, F.C.A., President, and Mr W. S. Orr, F.C.A., Secretary; The Association of Certified and Corporate Accountants by Mr E. Spencer, F.A.C.C.A., President; the American Institute of Certified Public Accountants by Mr J. Harold Stewart, C.P.A., Past President; and the Union Européenne des Experts Comptables Economiques et Financiers by Dr W. Elmendorff, President, with Mr R. Holveck, Secretary-General. Mr Douglas A. Clarke, LL.B., F.C.A., Mr A. E. Dawson, F.C.A., Mr Alexander McKellar, C.A., Mr W. L. Milligan, c.a., and Mr G. A. Usher, c.a., attended as guests of the Netherlands Institute.

#### **Dutch Registered Accountants Act**

In his opening address, Mr H. C. Treffers referred to the passing of the Registered Accountants Act for the regulation of accountancy in Holland. In the course of his address he said:

'Dutch accountants may feel satisfied that this Act largely corresponds with the principles underlying the recommendations of the Council of my Institute that were submitted to the Government in 1953 and 1954, and to the Van der Grinten Committee. Investigation is still in progress as to whether separate rules should be made for a 'second group of accountants'. Without, for the present, going further into the matter, I wish to say that in the opinion of the Institute, it would certainly cause confusion and also be against public interest, if a group of 'second-class auditors' were created. For proper auditing one cannot set a lower standard for the smaller businesses.

'It is, of course, of paramount importance that the law should explicitly guarantee that, for professional practice under the title of "registered accountant", the qualifications of professional knowledge shall not be lower than those of our present university and Institute examinations. This ensures that the standard of professional knowledge will

not be lower than what has so far been achieved through persistent effort in a free organization. This is not put forward as primarily in the interests of the registered accountant himself, but is of the utmost consequence for the proper performance of our professional duties.

'It is obvious, and not only to our colleagues, that besides the requirements for the necessary professional knowledge, the rules of conduct will have to guarantee the utmost functional independence, especially when the accountant is

acting in public practice.

'Next I would like to mention that our committee of advice on professional matters has, either itself or through a subcommittee, reported on three problems of outstanding importance for the profession, namely:

(i) the responsibility of the auditor with reference to

fraud;

(ii) the influence of latent tax obligations on the annual accounts of the limited liability company, and

(iii) the consequences of hidden and secret reserves for the approval of the annual accounts by the auditor.

#### **Hidden and Secret Reserves**

'In spite of all division of opinion on this point [hidden and secret reserves], I am convinced that all of us will agree that here we have a problem on our hands that must be faced and solved. I do not think it is incumbent upon me to put forward a suggestion on this subject, but I do wish to observe that those who are convinced that the system of industrial production and distribution is a very important asset in our Western community will, in my opinion, have to do whatever they can to find a solution for this problem. In this respect also the accountancy profession will have to be alive to its task, although I should add that it would be incorrect to consider this a problem, in the very first place or even exclusively, for the public accountant. On the contrary, I may say that primarily it is more a problem for the boards of management of companies, for the financial world and the financial press, but it should be noted, as well, that some consider this point to be a task for the Government.

'I will not say that this question is not of importance for the public accountant; on the contrary; for after all the public accountant can only give his approval if he thinks that the accounts submitted to him for audit are acceptable. For the acceptability and especially for the extent of the information and explanations required, there has for the past few years been a tendency to apply standards that are growing more rigorous. It would not be logical to make such standards primarily dependent upon the judgement of the public accountant. That would impose a responsibility where it does not belong in the first place. Nevertheless the members of our profession are, in fact, quite prepared to co-operate towards finding a solution. In actual practice this is being done to a far greater extent that is manifest to the public at large, by giving advice in places where the accountant is in charge of the audit of the annual accounts.

"The growing feeling that it will be imperative to come to a greater uniformity in the principles of valuation applied in drawing up the annual accounts, fits in with what has been said before. This is not only a problem of national importance; as a consequence of the ever-increasing internationalization of trade and industry, also strongly stimulated by evolutions such as the European Economic Community, it

has at the same time developed into a problem of international importance. In the course of the Eighth International Congress of Accountants held in New York, this problem was repeatedly under discussion.'

#### Changes in European Industry

Professor Dr H. J. Kuhlmeijer, of the Economic University of Rotterdam, then addressed the conference on 'Organic changes for and in European industry as a consequence of the European Economic Community'.

Recent events, he said, showed that the violent economic expansion of recent years in a number of Western European countries had diminished in strength. A period of quieter development was dawning. The slowing-down of the growth produced its own problems. Increased vigilance was required when the economic traffic lights were blinking amber warning signals.

Without wishing to neglect these current and extremely important aspects, Professor Kuhlmeijer said that he was concentrating on structural development and on long-term trends, and particularly on a number of changes for industry as a result of the European Economic Community. Some of these developments were, more or less clearly, taking shape.

Examination of these developments is at present hampered by the continuing uncertainty as to whether Great Britain, whether or not accompanied by some countries of the Commonwealth and by members of the European Free Trade Association, would join the European Economic Community and on what terms. Their entrance and especially the conditions of entry may make all the difference between night and day for some branches of industry.

In American eyes, the European Economic Community was viewed as one market with a purchasing power of less than half of their own American market. Yet the annual economic growth in the Common Market countries was appreciably higher than in the United States, so that while these conditions continue, the difference per head in purchasing power between these two great markets may gradually become smaller.

In recent years the consumers and workers in Holland had experienced an important rise in income. In the period from 1958 to 1961 wages had risen about 15 per cent, as against a rise of 5 per cent in the cost of living. A comparison between 1958 and 1962 would be still more favourable.

Increased spending was accompanied by an increase in what was called the free-income component. Owing to this, the power of the consumers as a group increases and the distributing sector gained more importance.

#### Towards a Marketing Economy

Professor Kuhlmeijer then discussed a number of general economic trends which were strengthened by the combination of the national markets.

The union of a number of national markets in Western Europe would not by itself, he suggested, create a common market that was greater than the sum of its parts. Accordingly, important questions of adaptation and adjustment were brought forward, not only for business life, but for the Governments of the member countries, involving the harmonizing of economic, social and trade policies.

The progress of technical development and the

continuous shortage of labour resulted in increasing investment in more expensive machines and equipment. Owing to this the proportion of fixed costs may rise. The greater the capital investment, the more was the undertaking sensitive to the trade cycle, and the more was the need to avoid excessive disturbances in production and to have a stable demand.

#### Costs and Prices

Undertakings have, for a number of years, been confronted with a continually rising level of costs in wages and salaries, social security burdens and a shorter working week. The Common Market, said Professor Kuhlmeijer, was well on the way to becoming an area with high costs of production and distribution. On the other hand, numerous sectors had already been confronted with a downward pressure on prices, which, apart from cyclical and other factors, may also result from the periodical reductions in the internal tariffs.

Businesses and branches of industry which did not succeed in time in making the adjustment between prices and costs would see their market position affected and might have to give place to others. While the changeover process would be eased by a widening of profit margins, the consequence of the Common Market was likely to be a shrinking of profit margins, accentuated by labour scarcity. Businesses with the lowest profit margin would be the first to feel the profit pinch and profitless prosperity offered little future. The phase of transition to the Common Market would be distinguished by an elimination process in which a number of European businesses would disappear or be taken over. As against this there would be the establishment of new businesses by enterprises from inside or outside the Common Market (e.g. English and American concerns).

#### **Concentration of Enterprises**

The growing intensity of capital in industry, susceptible to cyclical influences, the increase in the free income component of the consumers and the greater size of the market, all pointed to the increased significance of marketing for many industrial frms. In the industrial sector, the commercial departments were often the least developed and much needed to be done in training of their managers and staff.

Manufacturers with limited capacity would have less success in competing if they made a long range of products: they would need to specialize and to decide which products should be eliminated and on which qualities, price ranges and customers they should concentrate. The success of the large-scale distributing enterprises would stimulate consumption at lower prices and further promote mass production in large series.

In order to realize lower costs, under the economic laws of scale and growth, the assortment of manufacture in each factory would have to be narrowed. In retail trade, however, costs might be saved through increase of turnover at the place of sale, widening of choice and self-service. Owing to these contrary tendencies, new forms of combination and collaboration would have to grow, involving new relations between the making and selling departments of big businesses. The marketing sectors would grow in importance and the proportion of distribution costs to total cost would increase.

#### Widening of Distribution

Industrial enterprises in a number of sectors were faced with the choice as to what extent and in what way they should attune their output to the large distributing concerns and to the traditional middlemen. As a consequence, the optimum volume of turnover, in relation to marketing costs, and the optimum volume of manufacture, in relation to manufacturing costs, would be disturbed. Balance could be restored by closer co-operation or merger of undertakings, so as to combine the advantages of specialization in production with differentiation of sales. Success in exports outside the Common Market was partly determined by the preservation of the market position in the Common Market.

The question as to the optimal place of establishment of industries needed to be further considered as a result of the integration of the Common Market. Great international concerns might be willing to incur changeover losses in making a geographical shift of production. Industries with intensive need of labour could move to associated countries inside or outside Europe where the labour costs were relatively low.

Trade and industry, said Professor Kuhlmeijer, while striving for profitability and growth, must champion the essential cause of raising the level of prosperity; this was so, not only within national boundaries, but also in the whole of the Common Market, which would increasingly take on the character of a marketing economy.

#### **Europe the Home Market**

Dr Weisglas, head of the Economic Department of Unilever, thought that with the slackening of economic growth, too much attention had been paid to short-term problems and too little to the long-term benefits offered by the Common Market. After a time, one reached the limit of available capacity of equipment and of labour. All available economic prognosis pointed, apart from world-wide calamities, to growth though this did not rule out recessions of limited duration and geographical area. Even in economics, trees cannot grow in the sky and, especially in the Netherlands, there was a continuing shortage of labour, or, more exactly, a shortage of available manhours which was the cause of the slower growth.

The Common Market, he said, was a catalysator of many economic tendencies which had manifested themselves more clearly in recent years. The lowering of tariffs and the cessation of quotas had helped European trade independently of the Common Market, but the acceleration of this in the Common Market had encouraged the American Trade Expansion Act, through which further world-wide reductions of tariffs were to be expected. The process of mergers and co-operation to obtain technical benefits in production, selling and research had also been speeded by the Common Market.

It was less than five years, said Dr Weisglas, since the Treaty of Rome came into effect on January 1st, 1958, with its measures for raising quotas, lowering tariffs, co-ordinating agriculture and harmonizing of social policy. Further harmonization measures would be established by 1970 or earlier. Within a few years the European Economic Community would be one home market.

#### Confidence in Dutch Industry

The industry of the Netherlands, said Dr Weisglas, had grown up with similar problems and without a specific policy of protection and had learned to develop with only limited protective tariff walls. In 1960, about half the industrial production of Netherlands industry found its way to the foreign market, and of this more than half to the European Common Market. The proposition that the Netherlands market could be a remainder-market or dumping-ground for foreign manufacturers was unthinkable: nor that Dutch products could be of lower quality than those of foreign industry. Rather might one claim that the Common Market offered to Dutch and Belgian industry relatively more scope for expansion than to the larger countries of the Common Market. Beyond the home market of the European Economic Community, were the development areas, which were of special importance for the Dutch capital goods industry. Despite the transitional problems, Dutch industry would record more profit than loss from the Common Market and would satisfy the needs of the time for larger-scale production, better quality, specialization, product development, co-operation and effective market strategy.

Dr E. W. Meier, secretary and adviser to the Netherlands Catholic Employers' Association and permanent delegate to the European Economic Community, said that in the past industrialization had been stimulated in Holland by lower costs and wages. He claimed that through rising wages the industrial position of the Netherlands had worsened in comparison with its competitors in Europe and that the automatic warning lights were showing a red light. He feared that in the future costs would rise further through the outside tariff wall of the Common Market and the harmonizing of social costs.

At the end of the morning, Mr Treffers thanked Professor Kuhlmeijer for his critical analysis, for not shrinking from bringing out any weakness in the present position, and for his stimulating challenge. Dr Weisglas had been a more optimistic observer and Dr Meier had set the Professor's sketch in a golden frame. Mr H. C. Treffers concluded:

'We are witnesses, we are living through a great and fascinating development in Western Europe and we can be astonished that this old part of the world shows so much resilience. Though our future depends on the success of the Common Market, we have in the Netherlands the hope that this development will not shut us off from the rest of the world and that it will above all bring to an end the division of Western Europe.'

#### Concentration of Enterprises

For the afternoon session of the conference, Professor G. Diephuis, a member of the Netherlands Institute, had prepared an address on business problems in establishing concentration of enterprises, but owing to illness was not able to be present. His paper was discussed by a panel consisting of Mr J. Kraayenhof, Drs P. F. R. Stol, Professor Dr A. Th. de Lange and Dr H. Veringa. Professor A. Goudeket was in the chair as leader of the discussion and first gave a summary of the address of Professor Diephuis:

In the years eafter the Second World War the formation of larger units had again come to the fore. In Holland, through lack of sufficient raw materials, industry originally developed refining processes forming an extension of international trading activities.

Consequently the three distinctive features were variety, a horizontal organization and relatively smaller production units. In other countries, the presence of raw materials and a larger national market made possible a more integrated organization of industry with a more specialized production in greater series.

With these origins, Dutch industry had been confronted with a realization of the political and economic idea of the European Common Market, which aimed at an expansion of the market as a basis for large-scale production. The conditions of harmonization, said Professor Diephuis, deprived Holland of the advantage hitherto enjoyed of a low level of cost. The high rate of growth in 1959 and 1960 had now fallen back, while labour costs had increased and the working week was shorter. In theory prices should rise, but with the influence of the Common Market and the price regulation policy of the Government, prices had risen less than costs.

Since a favourable balance between prices and costs was a necessary condition for the continuance of a business, it was imperative for the management to consider whether the structure of the concern would promote efficiency over future years or whether some change was needed. The present very fast development in Western Europe raised the double task of changing over to a much greater selling market and to a reduction in costs. Professor Diephuis expressed the view that the natural growth of an enterprise may proceed too slowly and there may be danger of over-capacity in a particular line of business. Co-operation may bring out existing latent reserves of capacity. In this way one could 'buy time' and induce growth by leaps and bounds.

#### Mergers

Any form of co-operation, said Professor Diephuis, demanded from each of the partners the sacrifice of some independence. The rules for a lasting and successful co-operation were:

- (a) the purpose of the co-operation should be clear to each participant;
- (b) the advantages should, as far as possible, benefit them proportionally to their contributions;
- (c) the carrying-out of the co-operation should, as far as possible, take place in stages. For psychological reasons, time must be given for the management at different levels to realize the importance of the co-operation.

Although co-operation in relation to certain functions of a business might take the form of a cartel or might arise through a take-over bid, Professor Goudeket led the main discussion at the conference to the subject of amalgamations by merger. The individual enterprises lost their economic independence and a combined economic entity is created with a central management. The merger was, in part, a transfer of the existing enterprises, and in part an intention to create an improved economic position.

#### **Net Worth and Maintainable Profits**

The value of each of the existing enterprises would depend, according to Professor Diephuis, on its invested net worth at present-day values and on its maintainable profits using comparable standards but without taking into account the effect of the merger.

The panel spent some time discussing the basis of valuation and other matters in which accountants had special interest and could give advice. The high importance of ascertaining maintainable profits and the difficulties in doing so for businesses of a different character; the weight to be given to cash and other surplus assets not actually being used in a business but useful to the combined undertaking; the quantifying of other advantages and benefits; all these seemed very close to the accountant's sphere. There was also discussion as to the form of mergers, by holding company or otherwise, and on the treatment of additional profit arising out of the merger itself. It was agreed that the accountants to the fused undertakings should be given authority to discuss matters together so as to be able to avoid situations of conflict between the companies.

In summing up, Professor Goudeket, with his long industrial experience at Philips, said that in his opinion the professional accountant was the person to make the plans for the new entity being created by the merger.

#### Conference Dinner

At the conference dinner, the President, Mr H. C. Treffers, welcomed the visitors from abroad and the members of the Netherlands Institute and their ladies. He spoke with appreciation of the speakers and debaters at the conference and the work of the Ladies' Committee under Mevrouw van der Bosch.

Mr F. van Amerongen, Vice-President of the Netherlands Institute, addressed the representatives of other countries, speaking in French, German and English, on the prospects of agreement between the accountants of Europe. He said that accountants of Europe were looking forward to making a pilgrimage next September to Edinburgh, the cradle of the

Returning thanks for all the foreign guests, Monsieur Alexandre, Honorary President of l'Ordre National des Experts Comptables et des Comptables Agréés and President of l'Institut Français des Experts Comptables, speaking in French, said that the new economy of Europe confronted the profession with the need for constitutional change, for upsetting all traditions and for revision of ideas. While acting as guides to businesses, accountants must maintain a continuous research into intellectual matters, and put moral improvement, with the elevation of the conscience and principles, over materialism.

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### PARKER REPORT LACKS BOLDNESS

#### Educationist's Views at Birmingham Students' Dinner

A theme which recurred throughout the annual dinner of the Birmingham Chartered Accountant Students' Society, at the Grand Hotel, Birmingham, on November 30th, was, perhaps not unnaturally, that of education and training.

It was introduced by the city's Chief Education Officer, Sir Lionel Russell, C.B.E., M.A., who criticized what he described as a lack of boldness in the recommendations of the Parker Committee in these matters.

Sir Lionel, who was proposing the toast of "The Institute', said that since the passing of the Education Act of 1944 there had been a silent revolution in the field of education. So far as the statutory leaving age was concerned, the Act had done no more than increase it by a single year to 15.

Actually a most exciting voluntary extension of school life was taking place. Children were remaining at school after the age of 15, and over recent years the sizes of sixth forms had been increasing at the rate of 5 per cent each year.

There was a much greater demand for higher education and a much greater pressure on university places, which had increased from 50,000 just after the war to 115,000.

#### Post-war Development in Education

Sir Lionel said that the accountancy profession was to be congratulated on its present concern with education and training, but he suggested that the Parker Committee, although it had made a bold start, had not carried that boldness into its recommendations.

Since the war there had been a great development in education, particularly in higher education. Taking the engineering profession as an example, he recalled that before the war progress was largely by way of the night school, leading to National and Higher National certificates. He continued:

'May I say at once that I have a tremendous admiration for the man in any profession who has come up the hard way. But you can't do that without making certain sacrifices.

'It is very difficult to come up the hard way and not be just a little narrow in your outlook on life. Because you have had to make large sacrifices of your leisure time, you have been unable to follow all sorts of interests.'

Sir Lionel described how the engineering profession had solved this problem by means of 'that most exciting feature, the sandwich course' – four years of alternating practical experience and instruction in college. 'I cannot accept as an educationist,' he said, 'that correspondence courses are the best method of education'.

He was glad to see that the Council of the Institute seemed prepared to go further than the Parker report to investigate what arrangements could be made with the technical colleges and commercial colleges. With the experience gained from sandwich courses, he was sure that it was 'terribly worth while' to see whether they could not achieve this co-operation between the Institute and the colleges.

In any profession, professional competence was not enough. There must be training in leadership, and the leaders must be men who were as broadly educated as they were highly trained, who would ensure that their profession was used in the service of the whole community.

Replying to the toast, Mr John E. Talbot, F.C.A., a member of the Council of the Institute, said that the problems of training and education would be very much in the minds of the members of the Council for many years to come.

It was clear that reform would come, even though it might not go as far as Sir Lionel would wish. No doubt conservatives would regret many of the changes that were coming, while the radicals would feel that they did not go far enough.

The work of an accountant, he went on, was based on certain techniques, and many of these could not be learnt within the classroom or the lecture hall. That was one of the justifications for articles, and the retention of the system whereby articled clerks did office work concurrently with their study of textbooks and attending lectures.

Mr Talbot emphasized the importance of the allocation of adequate time for earnest and sustained study. This, he suggested, would get rid of two opposite misconceptions – the pessimism which said that the examinations were so difficult that nobody could pass them, and the optimism which said that all the work could be done in the last few weeks before the examination.

Proposing the toast of the 'Birmingham Chartered Accountant Students' Society', Mr John Shufflebotham said he had no basic criticism to make of students or of young people today. 'I think the only fault to be found with youth is that many of us don't belong to it any more' he remarked amid laughter.

#### Higher Aim

So far as education was concerned, he went on, it was only part of a much higher aim which was not always so apparent. This was the creation and maintenance of standards of mutual confidence and trust in professional outlook and behaviour.

So often attempts to settle industrial problems broke down because of a lack of trust in some way or another. By meeting together, students could acquire the qualities of getting to know the other man and of living with him. Those were the qualities needed to bring economic stability and peace to a distrustful world.

In his reply, Mr B. R. I. Scorer, honorary secretary of the Society, said that during the past year Birmingham students had shown a slight but encouraging increase in interest in the activities of their society. He hoped it was because the Society was trying to go a little further and a little deeper. It was aiming at widening the students' interests.

The toast of 'The Guests' was proposed by Mr R. L. J. Easton, a committee member, and Mr J. A. D. Owen, M.A., barrister-at-law, replied.

The health of the President was drunk on the call of Mr A. J. T. Crabbe, B.A., also a committee member, and the President, Mr Stanley Kitchen, F.C.A., replied.

# Notes and Notices

#### PROFESSIONAL NOTICES

Messrs Futcher, Head, Smith & Co, Chartered Accountants, announce that they have opened an office at 1 Imperial Buildings, Muster Green, Haywards Heath, Sussex.

Mr L. Gordon Gee, f.c.a., announces that he has closed his office at 1 Broad Street Place, London EC2. The practice of W. H. ROBERTS, GEE & Co, formerly carried on there, has now been incorporated into the practice of Eric Nabarro & Co, Chartered Accountants, 5 Bloomsbury Street, London WC1.

Messrs Price Waterhouse & Co and Messrs WOOD, COSTA & HARTY announce that on January 1st, 1963, their practices in Jamaica will be merged under the firm name of PRICE WATERHOUSE & Co. The partners of PRICE WATERHOUSE & Co from that date will be Messrs H. CLINTON NUNES, R. C. HARTY, G. W. N. DOWNER, R. C. HUMPHRIES, J. D. ASHENHELM, PETER LIDDLE, J. F. L. LORD and JOHN WHYTE.

Messrs Stead, Taylor & Stead, Chartered Accountants, of 10 James Street, Liverpool, announce that Mr WILLIAM WHINNERAH, F.C.A., who has been with the firm for over sixty-eight years is retiring from the firm on December 31st. Mr WHINNERAH became a partner in 1907 and from 1925 onwards has been the senior partner. The practice will be continued by the remaining partners.

Messrs C. N. Wood & Co, Chartered Accountants, of St James's House, 44 Brazennose Street, Manchester 2, announce that as from December 1st, Mr ARTHUR EDGE, F.C.A., has been taken into partnership, and the name of the firm is now changed to C. N. Wood, EDGE & Co.

#### Appointments

Mr Norman J. C. Barton, A.C.A., secretary of John Dickinson & Co Ltd, has been appointed to the board of the company as financial director. He relinquishes the post of secretary.

Mr R. P. Chappell, F.C.A., has been appointed circulation director of George Newnes Ltd.

Mr P. E. Kanas, A.C.A., has been appointed secretary of British Rainwear Manufacturers' Federation.

Mr N. O. Lance, A.C.A., has been appointed assistant secretary of British Uralite Ltd.

Mr P. W. Lewis, F.C.A., chief accountant of Dennis Bros Ltd, has been appointed a director of the company.

Mr George Ireland, F.C.A., has joined the board of Bowden (Engineers) Ltd.

Mr Ian T. Morrow, c.a., f.c.w.a., has been elected chairman of the Kenwood Manufacturing Co Ltd.

Mr M. A. Muzaffar Hasan Hydrie, B.COM., A.C.A., A.C.I.S., has been appointed as an auditor in the Public Service of Northern Nigeria.

#### **OBITUARY**

#### Jack Farrance Chadwick, F.C.A.

We have learned with regret of the death on November 14th last, at the age of 64, of Mr Jack Farrance Chadwick, F.C.A., financial director of George Wimpey & Co Ltd.

Mr Chadwick qualified as a member of the former Society of Incorporated Accountants in 1924 and was admitted an Associate of The Institute of Chartered Accountants in England and Wales in 1932. He gained special distinction in the examinations of both the Society and the Institute. He spent many years with Mellors, Basden & Co, and although a director of Wimpeys since 1934, was persuaded to become the full-time financial director only in 1956. He was outstandingly successful in dealing with the world-wide problems of the company.

Although quiet and unassuming in manner, Mr Chadwick held tenaciously to his views, always based on a penetrating analysis of the situation and informed judgement. He endeared himself to his colleagues by

his friendliness and quiet humour.

#### SIXTY-THREE YEARS IN THE PROFESSION

A member of The Institute of Chartered Accountants in England and Wales for sixty-three years, Mr William Whinnerah, F.C.A., senior partner in the firm of Stead, Taylor & Stead, Chartered Accountants, of Liverpool, is retiring from practice at the end of this month, as announced under Professional Notices.

Mr Whinnerah was articled to his father in 1894, who was also a partner in the firm, and was admitted an associate of the Institute in 1899. A partner in his firm since 1907 and senior partner since 1925, Mr Whinnerah must be one of the oldest practising accountants in the country.

In 1957, the Liverpool Society of Chartered Accountants held a luncheon in his honour to celebrate his long association with the profession.

#### NEW BRITISH RAILWAYS BOARD

The membership of the new British Railways Board, announced by the Minister of Transport, Mr Marples, last week, includes two chartered accountants. They are Mr P. H. Shirley, F.C.A.(AUST.), who becomes a

MOTOR — FIRE — CONSEQUENTIAL LOSS

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full-time member and Colonel D. H. Cameron of Lochiel, T.D., B.A., F.C.A., who will serve in a parttime capacity. Both were members of the British Railways Committee, formed earlier this year, to prepare the way for the new Board.

#### IN PARLIAMENT

#### **Decimal Coinage System**

Mr Gower asked the Chancellor of the Exchequer if, in view of the present Common Market negotiations, he will make an early decision about the proposed change to a decimal system of currency.

Mr BARBER: I think we should await the report of

the Halsbury Committee.

Mr Gower: Is not it regrettable that this decision has been delayed for so long? Is it impossible for the Committee to give some interim advice to enable my right hon. friend to come to an earlier decision?

Mr BARBER: We hope that the Committee will be in a position to report early next year.

Hansard, Nov. 20th, 1962. Oral Answers. Col. 991.

#### Wages: Payment by Cheque

Mr Graham Page asked the Minister of Labour whether he will now name the day authorizing the

payment of wages by cheque.

Mr HARE: Yes. After consultation with interested organizations, I now propose to appoint March 1st, 1963, as the day from which the payment of wages by cheque will be authorized under the Payment of Wages Act, 1960.

Hansard, Nov. 30th, 1962. Written Answers. Col. 115.

#### THE INSTITUTE OF COST AND WORKS **ACCOUNTANTS**

#### President's Luncheon

The President of The Institute of Cost and Works Accountants, Mr W. Bishop, c.A., F.C.W.A., gave a luncheon party last Tuesday at the Grand Hotel, Bristol. Those present were:

Prof. L. R. Amey, B.EC., B.A., PH.D., Professor of Accounting, University of Bristol; Mr A. G. Bush, F.c.w.A.; Mr Donald A. Bussell, M.B.E., F.C.A., Chairman, Yatton Furniture Ltd; Mr R. E. Caines, A.C.W.A.; Mr M. J. Condon, A.C.W.A.; Mr J. F. Harper, C.A., Managing Director, Bristol Aircraft Ltd; Mr Richard Hill, J.P., Director, Charles Hill & Sons Ltd; Dr H. S. Hirst, M.A., B.SC., PH.D., General Manager, Severnside Works, Imperial Chemical Industries Ltd; Mr G. J. Pierce, F.C.W.A.; Mr J. F. Robinson, Chairman, E. S. & A. Robinson (Holdings) Ltd; Mr A. B. Wiggins, A.C.W.A.; Councillor Charles O. Worth, Chairman, Port of Bristol Authority; Mr Derek du Pré, Secretary of the Institute.

#### THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND List of Members

The List of Members of The Institute of Chartered Accountants in Ireland, now published, shows that membership at August 31st, 1962, numbered 1,761, an increase of fifty-one over the previous year's figure. An analysis of the membership is given below:

		Members in Ireland	Members no in Ireland
Fellows in practice		267	15
Fellows not in practice		18	13
Associates in practice	٠.	202	22
Associates not in practice		928	296
Matal arranghamahim		<del></del> .	-6-
Total membership	• •	1	<b>,</b> 761

The new book contains the usual alphabetical and topographical lists of members, together with names of members of the Council of the Institute.

#### THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

The following meetings of The Chartered Accountant Students' Society of London will be held during next week:

Monday, 6.30 p.m. for 7 p.m.: at Grosvenor House, Park Lane, W1: Annual dinner.

Tuesday, Visit to Fords Motor Works (limited number).

5.30 p.m., at Luton: Lecture on 'Consolidated accounts', by Mr R. S. Waldron, F.C.A., F.T.I.I., F.I.A.F.B., F.INST.D.

Wednesday, Lecture and demonstration of punched-card

accounting (limited number).

Thursday, at St Bartholomew's Hospital: '59 Club' mock

trial. At Caversham: Reading Branch dance.

Friday, 6.30 p.m. At Ilford: Lecture on 'Financing industry', by Mr D. H. Millard, A.C.A.

7 p.m., at Dorking: Mid-Surrey Branch annual

general meeting.

The London Articled Clerk's Diary for 1963 is now on sale at the Students' Society Library, Spencer House, South Place, EC2 (price 4s, by post 4s 6d).

#### ANNOTATED TAX CASES

Part 4 of Volume XLI of the Annotated Tax Cases, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, is now published and contains reports with notes on the judgments of the following cases: Musker v. English Electric Co Ltd (Ch.D.); Brooke Bond & Co Ltd v. C.I.R., Brooke Bond & Co Ltd v. Butter (Ch.D.); Doyle v. Davison, (Q.B.D.); Jennings v. Barfield and Barfield (Ch.D.); Fitch Lovell Ltd v. C.I.R. (Ch.D.).

The annual subscription to the Annotated Tax Cases is 50s post free; the publishers are Gee & Co (Publishers)

<del>\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*</del>

Limited, 151 Strand, London WC2.

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# ACCOUNTANT

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### £10,000 a Year

AGOOD many years ago Mr Samuel Warren wrote a book which he called £10,000 a Year and which rapidly became a best seller. Its success was perhaps not unconnected with the intriguing nature of its title. If one were to add after the title the potent words 'tax free' it would conjure up visions of a truly astronomical gross income. This highly desirable situation was nearly attained recently when the Special Commissioners decided that a tailoring company need not pay tax in respect of some £10,000 a year from customers. However, the story does not stop at this happy ending, and last week in Elson v. Prices Tailors Ltd, Mr Justice Ungoed-Thomas reversed the decision.

In his judgment, the learned judge said that the respondent, Prices Tailors Ltd, carried on the business of bespoke and ready-to-wear tailors at some three hundred and fifty to four hundred branch retail shops. Customers who placed orders for bespoke garments were asked to leave a sum of cash with the company which was referred to as a 'deposit'. In some instances customers who had paid 'deposits' failed to collect the garments, and the company was left with the garments and the unclaimed deposits. The company issued reminders for about three months and if these were without results the unclaimed garments were then sold as ready-to-wear garments in the company's own shops.

The company provided a manual of instruction for its branch managers and this stated that where a customer turned up to collect his 'deposit', the manager should persuade him to buy something with it. However, where the customer was not persuaded, the manager was to return the 'deposit' to him in order to protect the goodwill of the company. Something like £10,000 a year came in from unclaimed deposits and the company claimed that these were not trading receipts and therefore not taxable.

His lordship said, according to *The Times* of December 8th, that he had come to the conclusion that the Special Commissioners' decision was not right. The word 'deposit' in this context carried its usual meaning of 'security for purchase'. It became forfeitable at the time of the customer's default, and that made it a trading receipt of the year in which it was actually received. The decision thus answered two separate questions, both of which are a frequent source of dispute in income tax practice. Is it income? and if so, At what date did it accrue? There is authority both ways on both of these points, and although no doubt subtle distinctions will continue to be drawn, the decision introduces clarity in one particular field. It is subject to appeal.

# Port Accounting à la Rochdale

AT the time that Lord ROCHDALE was appointed to head the committee of inquiry into the major docks and harbours of Great Britain *The Times* saw fit to remark that 'His findings, some think, are more likely to be reliable than brilliantly original'. Whether this general view is warranted now that the report is published it is not for us to express an opinion, but most certainly its financial and accounting findings, if not quite 'brilliantly original', would, if implemented, mark a very important step forward in the application in the public sector of the most modern, and indeed, most realistic accounting theory. Accountants should not allow the report to pass unnoticed.

The accounting recommendations must be viewed in the light of the committee's general criteria for judging the financial standing of a port. The committee entirely rejected the concept of 'public service' as a limit to a port authority's responsibility for conducting their financial affairs on the basis of sound economic and accounting principles, and they saw no reason why ports should not be regarded as commercial undertakings. In this respect, therefore, their report consolidated the approach of the Herbert Committee Report on the Electricity Supply Industry, January 1956 (Cmd. 9672), and the Government's White Paper on the Financial and Economic Obligations of the Nationalised Industries, April 1961 (Cmnd. 1337).

The Rochdale Committee's views and recommendations on the treatment of depreciation are of much interest. The form and basis of the accounts of the various port corporations is at present laid down in the Parliamentary Acts under which they were established. Most ports use some form of double account system. In the case of the public port corporations there has been no specific requirement to provide for depreciation as such, but only to make provision for maintenance and renewal in the revenue account. The committee suggest that this should be changed, and they recommend instead that, 'after covering working expenses, ports should aim at providing out of revenue for interest on loans, depreciation on a replacement cost basis, taxation, and some margin for reserves to meet contingencies and to help finance minor improvements'. A Charging depreciation of assets at original cost, in their view, does not go far enough since under it ports would only accumulate funds sufficient to replace assets with plant and equipment of a value not exceeding their original cost, or alternatively to pay off the loans borrowed to buy those assets in the first place. In inflationary conditions — and history suggests that some degree of inflation is normal — this would entail that ports would have continually to increase their borrowings, and consequently their interest charges, in order merely to hold their position, and, indeed, this is what has happened in the past.

Like the Government White Paper on the nationalized industries referred to above, the committee recommend charging depreciation on an uplifted basis but there is one important difference. The Rochdale Committee's implication is that the full amount of depreciation should be provided as one item in port accounts; in contrast the White Paper clearly states that depreciation on the historic cost basis should be charged and 'provision should also be made from revenue . . . to cover the excess of depreciation calculated on replacement cost basis over depreciation calculated on historic cost, (i.e. it should involve two items in the accounts). The final decision on how depreciation should be charged 4 in the port industry is going to be an interesting and is it too much to hope - an enlightening one. This is especially so since the Herbert Committee saw 'no practical or theoretical reason why the clearer course of making the whole (depreciation) charge before arriving at "surplus" should not be taken'. In spite of this the electricity supply industry still provides a supplementary reserve for depreciation (to cover additional replacement cost depreciation) after striking its consolidated surplus.

The committee do not discuss the mechanics of replacement cost depreciation. Ports will have to decide whether it is the original cost of the assets revalued by a *general* price index or by price indices of *particular* assets, or alternatively whether it is the current cost of maintaining a given capacity in terms of throughput (i.e. taking technical change and improved organiza-

tion into account). Again, does the system require, in effect, the revaluation at the start and a further revaluation each year thereafter? Does it involve depreciating life-expired assets and how are those prematurely scrapped to be dealt with? The valuation of land involves its own peculiar problems. All these and other matters will have to be decided before ports can depreciate at replacement cost. It will be a pioneering task and they may well have to learn from experience on the Continent.

The step from the ideas of the late nineteenth century to those of the second half of the twentieth is not confined to depreciation alone: t is apparent in the underlying philosophy of the control of charges. As with the railways and other public utilities, Parliament sought to curb my potential monopolistic power conferred in the Parliamentary Acts on port authorities, by providing that the principal charges must not exceed the maximum rates prescribed in those Acts.

The committee found that charges were kept to a reasonable level by competition between the ports and by users' representation on the boards and concluded that the existing system of charges control was 'inconsistent, incomplete and to a arge degree no longer serves any useful purpose'. Accordingly they proposed that it should be bandoned. In the case of port charges there is a listinction between dues which are levied on hips, goods and passengers, and other charges or specific services. The committee considered hat payers of dues should have the right of ppeal to the National Ports Authority, whose ecision should be based solely on the cost of the ervices concerned. All other charges, on the ther hand, should be reasonable and subject to ecourse to the Courts by dissatisfied port users.

This recommendation is curious in two ways. Dues are, by their nature, the most difficult of harges to relate to costs and are largely in the ature of tolls for the use of the port and to meet the fixed expenses of locks, quays, basins, etc. – xpenses that have to be met irrespective of the olume of use. On the other hand, the Courts' riteria in assessing the reasonableness of charges ould be inconsistent with the financial objectives at by the committee and with the decisions on uses by the National Ports Authority.

In addition to the proposed safeguards for ort users the National Ports Authority would

have *permissive* powers to regulate port charges, but these would only be exercised if the Authority was not satisfied on examination of the accounts that charges were not being made on an economic and reasonable basis. Ports would be instructed to establish a charges system which would provide adequate earnings on capital employed on each and every activity.

The general aim in fixing the level of all charges should be to ensure sufficient revenue to achieve the financial objective suggested by the committee. This objective is interesting. Ports would aim at earning enough revenue to cover depreciation on assets at replacement cost and to pay interest on loans, but not in addition to provide for loan redemption. The aim of covering both depreciation at replacement cost and providing for loan redemption was rejected, as it was thought to place an unreasonable burden on port revenues. Commercial concerns, asserted the committee, are not normally expected to maintain themselves and also to pay back their original share capital, and ports which rely for finance on redeemable loans would be placed at a disadvantage by comparison.

In pure theory, depreciation and provision for loan redemption are alternatives, and no doubt this accounts for the committee's recommendation. The problem for the ports is that, as a matter of practical finance, it is not feasible for port authorities financed by fixed interest loans to issue such loans without associating with them sinking funds that will provide for the redemption of these loans after a reasonable period of time. These funds must be kept entirely for the redemption of their related stocks. To issue fixed interest stocks not associated with sinking funds would be tantamount to issuing irredeemable stocks - for even though the issues had redemption dates, such redemption could in practice only be met by conversion. Once this position was appreciated in the stock-market it seems certain that the rate of interest required would rise to a high level to take account of the risk. The rate of interest on fixed interest stock issues, plus the cost of loan redemption, might be said to approximate to a commercial company's dividends. Hence ports could reasonably be expected to provide for loan redemption in addition to replacement cost depreciation.

One solution to this problem is to provide for

loan redemption in the profit and loss account, and to reduce the replacement cost depreciation charged to that account by a similar amount.

The committee thought that ports should also provide out of revenue a reserve for unforeseen contingencies, such as premature obsolescence, and to help finance minor improvements; but the size of such allocations was not indicated. In the electricity industry, the Herbert Committee suggested that an average annual allocation to reserve of 1 per cent of the capital employed would be 'no more than a modest provision against contingencies'.

The Rochdale Committee also criticized the ports' accounting systems and the presentation of accounts, and the low level of capital expenditure in the industry since the war. On management accounting they had a number of suggestions: budgetary control would be improved by having the budgets prepared by the operating departments themselves; regular financial reports to management should be prepared comparing actual with budgeted expenditure; port operations should be costed more frequently and in greater detail; all accounting functions should be done by the accounts department; a common code for analysis of income and expenditure should be

developed by the National Ports Authority. Doubtless many of these improvements are in train. Wide use is made of punched-card equipment, at least two computers are in use and the extension of the use of computers is being examined. Perhaps the report will hasten these developments.

All in all then, the Rochdale Committee have produced a worth-while report. How the Government will act upon it we must, like Mr Asquith, 'wait and see'. However, THE MINISTER OF Transport, Mr Marples - himself no mean accountant - has cited port accounting as one instance where action by the ports on the Rochdale recommendations need not wait for Government pronouncements: 'There are few ports in this country, for example, which would not benefit by a thorough review of accounting procedures. Until each and every port in this country runs its accounts on a thoroughly up-to-date basis it will not be possible for the Government – or anyone else – to be sure that true efficiency, in the sense of really earning one's keep, is being achieved.' Whatever happens the nation must surely be grateful for the constructive criticism of this vital section of the economy afforded by these Rochdale pioneers.

# What Kind of Growth Rates?

by A BUSINESS ANALYST

LL decisions involve planning, whether it be explicit or implicit. Forecasting is an outstanding subject in the minds of business men and is considered indispensable in planning. Forecasts are statements of future expectations. As exact statements of what will happen in the future are virtually impossible the predictions, to a very great extent, depend on the assumptions made. If the assumptions are reasonable, the prediction has a better chance of being reliable. When facts underlying the assumptions are set out in detail, the reliability of forecasts can be more readily judged.

The essence of a sound approach to forecasting is common-sense analysis of the important forces making for economic change. These forces must be expressed quantitatively on a co-ordinated basis of timing in order to appraise their relative importance and to put them in proper relationship with each other. In order to minimize the probability of error, the estimates of their individual values must be corrected or modified in the light of their interrelationships and integrated in a consistent pattern of economic development.

#### **Growth Potentiality**

Forecasting methods and techniques vary with the kind of planning needed. The rapid advancement made in planning in the last decade is largely due to the ever-increasing importance given to sound business forecasting. As decisionmaking is becoming more and more difficult, diverse methods and techniques of forecasting are required. Two broad types of business forecasting are usually applied: short-term and long-term? forecasting.

Increasing interest is being given to long-

range forecasting because it provides a reliable basis for planning commitments for durable goods. Future demand for durable goods must be estimated from anticipated future requirement for their services. Long-range forecasts develop a kind of average anticipation or expectation under determined assumptions. This expectation may be called growth potentiality. In using modern forecasting methods, the assumptions made are based on full or near-full employment.

Long-term forecasts are needed to make decisions regarding public utilities, water works, roads, etc. These decisions are reflected in the budget estimates. Make-shift adjustments from year to year produce unsatisfactory results. Knowledge of long-term requirements for growth and an enlightened understanding of the growth of demand will lend substantial reassurance and encourage private industry to set reasonable targets and provide leadership instead of following blindly certain indications of current markets in the private economy. Private industry needs, and should have, all the encouragement and reassurance it can get to be able to put the future in true perspective. Among the many functions of the Government, one is to provide some degree of responsibility as regards industrial leadership.

For the private industry, it is a costly mistake to provide too little or too much capacity. If capacity is too high, operation is too costly; if capacity is limited, some orders cannot be filled. Low and very high rate of operation are allied to high per-unit cost. No one would expect a business man to have the order books at all times commensurate with his capacity of production, but one would expect a capacity which will satisfy most of the demand in prosperous periods. To meet the demand, the business man must know the long-term demand for his products. Knowledge of future market conditions will help him to have enough capacity so as not to fall far short of peak demands, and not to be out of relation to current demand. Specialized capacity is not readily convertible to other types of products, and even if it is converted the appropriate level of aggregate capacity may become unprofitable dueto concentration of the wrong type of products.

#### **Improving Competitive Position**

An understanding of the growth potentialities of different kinds of products will help to keep the distribution of capacity adjusted to the distribution of demand. When one company attains a better understanding than its competitors of the growth potentiality of aggregate demand and of

the distribution of the demand, the competitive position of the company will be substantially improved.

Comprehension of growth potentialities will help hold down cost of capacity, because it makes it possible to allocate increased expenditures to expansion when costs are the lowest. Capital building is usually carried out in periods of high current demand and costs. Knowledge of growth potentialities will help to stabilize the economy by allocating adequate expenditure on capital building in periods of depression. It also helps creating sound labour relations.

Labour will respect the management much more if they are convinced that the management has a thorough and enlightened understanding of growth potentialities. Company and industrial objectives can be explained more convincingly, capital buildings can expand employment in depressed periods, and if the competitive position of the company improves, higher labour costs can be more easily met without price increases. So much for the advantages and importance of accurate growth forecasting and enlightened understanding of the growth of demand.

#### **Determining Growth Rates**

To be able to make accurate growth forecasting, the rates of growth must be computed accurately too. It has become very fashionable to talk in terms of growth rates, but is the term understood by all of us who talk about it or use it? Some forecasters are convinced that the economy does not change rapidly, therefore the immediate future is likely to be a continuation of the trends of the present. If the rate and direction of change can be determined, it is necessary only to project these movements to predict the future. The following variations of approach can be used:

- (i) projection of consecutive period to period change in either adjusted or unadjusted data;
- (ii) projection of non-consecutive period to period change in either adjusted or unadjusted data;
- (iii) projection of trends in the rates of change (here the calculation of trend line or other mathematical treatment is necessary);
- (iv) projection of trends in the original data, adjusted or unadjusted;
- (v) projection of one half of the cycle from the rates of change of the other half;
- (vi) projection of rates of change patterns etc.

The determination of growth rates depends on

the methods of computation used. Some business analysts use the compound table method, others prefer the method of least squares. There are many other business analysts who use different methods such as:

simple average method; semi-average method; average annual increases/decreases method; moving average method; logarithmic method etc.

It is difficult to say which one is the best method because it depends rather on the series of figures on which the average rate of change is calculated. The examples below give some indication of the importance of the various methods:

#### (i) Compound Table Method

Year -	Sales	
	(£000)	
1948	80	
1949	88	To obtain the average annual growth
1950	96	rate, 140 must be divided by 80
1951	90	which gives 1.75. Looking this up in
1952	87	the compound table, we get 5.2 per
1953	100	cent per annum. The shortcomings
1954	118	of this method is that it measures only
1955	122	the growth between 1948 and 1959,
1956	110	and does not take into consideration
1957	108	the movements between these two
1958	119	years.
1959	140	

#### (ii) Logarithmic Method

This method (based on the figures in Example (i)) gives the same result as that above. The only advantage it has is that no compound table is necessary to arrive at the average annual growth rate.

Antilog of 0.022 0944=5.2 per cent per annum Here again the growth is measured only between 1948 and 1959.

#### (iii) Logarithmic Method Based on Index

Numbers (based on figures in Example (i))
Year Index

0.243 0380 4 11 = 0.22 0944

Antilog of 0.022 0944=5.2 per cent per annum

#### (iv) Semi-average Method

Here the first six years' sales figures are added together and divided by the number of years, and the result plotted on a chart exactly in the middle of the period. The same operation is carried out for the second period.

1st period	2nd period
80	118
88	122
96 90 90·17	110
90 90 17	108 1193
87	119
100	140
541:6=90·17	717:6=119·5

If these two figures are plotted, the two points joined and extended up to 1959 and back to 1948, then the values for 1948 and 1959 can be read off the chart. The value for 1959 (137) must be divided by the value of 1948 (76) which gives 1.803. Looking this up in the compound table, we get 5.5 per cent rate of growth per annum for the period 1948–1959. The second and third methods may be used, but it would not change the result.

#### (v) Simple average Method

(based on figures in Example (i))

One hundred and forty is divided by 80 which gives 1.75 which in turn is divided by the number of years minus one, i.e. by 11, and we get 6.8 per cent per annum. This method is very widely used, and, needless to say, is the worst possible method one can apply.

#### (vi) Three-year Moving Average Method

Year	Sales (£000)	Three-year Moving Total	<b>Three-</b> year Moving Average
1948	80		_
1949	88	264	88
1950	96	274	91
1951	90	273	91
1952	87	277	92
1953	100	305	102
1954	118	340	113
1955	122	350	117
1956	110	340	113
1957	108	337	112
1958	119	367	122
1959	•140	- '	<u>-</u>

The purpose of this exercise is to eliminate or flatten out the fluctuations. After dividing 122 by

88 the factor becomes 1.386 which gives 3.7 per cent average annual growth rate by using either of the first three methods.

#### (vii) Average Annual Increases/Decreases Method

Year	Sales (£000)	Per cent annual change	
1948	. 80		
1949	88	10.0	•
1950	96	9.1	
1951	90	- 6.3	
1952	87	- 3.3	
1953	100	14.9	
1954	118	18.0	
1955	122	3.4	
1956	110	9.8	•
1957	108	r·8	
1958	119	10.3	
1959	140	17.7	
		62.1:	11=5.6 per cent per annum

The curve is fitted so as to minimize the sum of squares of the sales value differences between the trend and the actual sales values. Advantage can be derived, in some cases, by using the squared percentage method.

#### Conclusion

The eight different methods give six different results as can be seen from the following table:

	Per cent
	per annum
(i) Compound table method	5.2
(ii) Logarithmic method	5.2
(iii) Logarithmic method based on	
index numbers	5.2
(iv) Semi-average method	5.2
(v) Simple average method	6.8
(vi) Three-year moving average	
method	3.7
(vii) Average annual increases/De-	
creases method	5.6
(viii) Method of least squares	4.5

It emerges clearly from this table how important it is to use the right method for the computation of the average annual growth rates. The more a company is planning-minded, the more it is necessary to compute the growth rates by using the most appropriate methods. Perhaps some readers may care to comment and suggest other methods or relate their own experiences after having filled in the first N.E.D.C. questionnaire.

#### (viii) Method of Least Squares

` ,		,	1			•			•	Antilog of
Year	Y	$Lo_{i}$	g Y		x	$x^2$	x Log	<b>Y</b> ,	Trend values	trend values
1948	80	1.803	0900	-	-1 X	121	-20.933	9900	1.915 6459	82.4
1949	88	1.944	4827		- 9	8r	17.500	3443	1.933 6851	85.9
1950	96	1.982	2712	-	<b>-</b> 7	49	-13.875	8984	1.951 7243	89-5
1951	90	1.954	2425		- <b>5</b>	25	— 9·771	2125	1.969 7635	93.3
1952	87	1.939	5193		- 3	9	— 5·818	5579	1.987 8027	97.2
1953.	100	2.000	0000	-	- I	r	2.000	0000	2.005 8419	101.6
1954	118	2.071	8820		I	1	+ 2.071	8820	2.023 8811	105.7
1955	122	2.086	3598		3	9	6.259	0794	2.041 9203	110.1
1956	110	2.041	3927		5	25	10.206	9635	2.059 9595	114-8
1957	108	2.033	4238		7	٠ 49	14.233	9666	2.077 9987	119.7
1958	119	2.075	5470		9	8r	18.679	9230	2.096 0379	124.8
1959	140	2.146	1280		11	121	23.607	4080	2.114 0771	130.0
	<u> </u>	24.178	3390	:	12	572	+75.059	2225		

Antilog of 0.018 0592=4.2 per cent per annum

-69.900 0031

5.159 2194 : 272=0.009 0196×2=

0.018 0392

# The Coal Board Story – I

INTEGRATED E.D.P.
IN A NATIONALIZED INDUSTRY

by DUDLEY W. HOOPER, M.A., F.C.A. Chief Organizing Accountant, National Coal Board



N reviewing the use of computers and the development of the computing art in a nationalized industry, it is necessary to take into account a number of considerations which together pose some special problems. Each of the nationalized industries has, of course, particular problems of its own, but they all have certain common features which affect the application and development of computing and electronic data-processing techniques:

- (a) they are large in size;
- (b) they are complex in administration;
- (c) there are usually traditional methods of management; and
- (d) they have to provide a public service which must not be disorganized or interrupted while any changes in their internal management methods or administrative structures are being implemented.

#### Possible Fields of Application

Computer applications in the coal industry may be considered as falling, broadly, into three groups. Firstly, there is the view of a computer as an arithmetical calculator. For example, we have used service bureau machines for statistical calculations, problems in medical research, and actuarial calculations in connection with pension schemes and superannuation funds. All these could be done by other methods, but on a computer they can be done faster and with fewer errors – and, if needed, more comprehensively and more frequently. Two particular examples of this sort of work are:

- (a) Calculation of stock control tables to give reorder quantities and levels of stockholding for different items, with stock forecasting; there are 1,000 entries in each table. The computer relieved human boredom and overcame human error.
- (b) Investigation of the time taken to get a message from the pit head to all men dispersed underground, the message having to be passed through various telephone exchanges or terminals, not always manned. This is a good example of critical path scheduling.

Secondly, there is the use of a computer as a mathematical tool, developing techniques which would not be practical on conventional calculators, for example, in model simulation, production forecasting and control, and other problems of projecting many alternatives to find the optimum solution. Examples of this sort of work carried out by service computers are:

- (a) Linear programming exercises on the various by-products of a coke oven, to determine the optimum allocation of each by-product to be produced in the next production period.
- (b) Simulating the flow of work through a projected workshop to establish the best layout and distribution of machines.

Thirdly, there is the use of a computer at the heart of a data-processing system designed to handle current transactions and to prepare information for management. This information will often be, initially at any rate, in similar form to that produced by conventional methods, but should be:

- (a) better (more comprehensive, and partly predigested);
- (b) quicker (and therefore more useful, with earlier action possible); and
- (c) cheaper (using fewer staff in conditions of rising costs).

It is the third field of application which usually offers immediate tangible returns and justifies the

This paper, based on the author's presidential address to the British Computer Society last May and reproduced by permission of the Society, has been brought up to date by the author. The original address, containing some additional technical detail, is to be published in due course in The Computer Journal. Any opinions expressed are those of the author and not necessarily those of the National Coal Board (to whom acknowledgement is due for permission to use the information now disclosed) or of The British Computer Society.

#### THE ACCOUNTANT

computer installation which can then be developed over the other fields. In practice, of course, these three fields of possible computer application are not completely distinct. While distinction was perhaps necessary in the early days of computer development, these fields are becoming more fused together. But it is not easy in a large industry to develop mathematical simulation over the vast range of activity and the many variations in everyday operation. Further, management must not be confused by substituting mathematical non-understanding in place of the traditional flow of information to which they are accustomed.

#### Information for Management

Therefore, the first move has been to design systems which will, as first objectives, provide management information better, quicker and cheaper. This justifies the installations, which will then hold the detailed information related to actual events to be used for developing production control and other techniques based on the simulations and model problem solutions.

The basic form of information for management is a

#### **OPERATING STATEMENT**

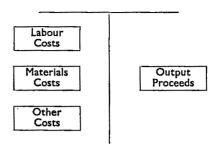


Figure 1. Simble operating statement.

simple operating statement, based on a comparison of cost against realization, outlined in Figure 1. This is the fundamental information required at every level of management, for each activity, and for any purpose (e.g. profit or loss, income and expenditure, actual against budget, etc.). To produce such a statement, it is clearly necessary to record and process all relative transactions to be included in each of the four blocks.

A schematic representation of the flow of data to provide operating statements is shown in Figure 2.

#### INTEGRATED DATA PROCESSING FOR MANAGEMENT

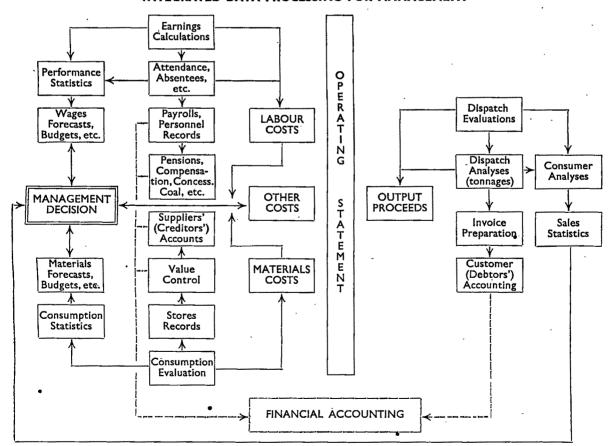


Figure 2. Schematic representation of integrated data processing for management.

Here we have the essence of integrated information processing, a transaction, once recorded, serving all subsequent purposes for which that transaction may be used or incorporated with others.

In a large industry such as the National Coal Board, such a project is particularly challenging in two aspects:

(a) The sheer volume of transactions, or events, occurring every hour, every day, week, accounting period, month and year, with the many variations from expectation in an industry so conditioned by changing geological and economic circumstances;

(b) The implications in potential organization and administrative changes, without destroying the basic administrative pattern or spheres of responsibility within the industry.

The National Coal Board is a large organization by any standards as can be seen from the volumes given in Figure 3. The Board is the sole statutory body for the working of coal in Great Britain, and comprises eight full-time with, at present, three part-time members, appointed by the Minister of Power, with headquarters in London.

**Coal Board Organization** 

For administrative purposes, operations are organized in nine geographical divisions, on the coal fields, each led by a divisional board, with a chairman, deputy chairman, and five or six functional directors. The divisions are subdivided into areas, each led by an area general manager. There are forty-three areas at present. Each area comprises five to twenty collieries, with a variety of other activities, such as central workshops, central stores, road transport services, houses, estates, land, farms, etc. There are also coke and by-product plants, and brickworks.

Collieries	(Approx.) 650
Weekly Paid Industrial Workers	580,000
Annual Turnover	£800,000,000
Annual Output	200,000,000 tons
Net Assets	£800,000,000
Divisions	9
Areas	.40

Figure 3. Some statistics of the National Coal Board.

The administrative organization of the industry follows the 'line and staff' pattern, with a direct executive channel from the Board, through the divisional board, to area general managers and the individual collieries. Each level of management is supported by a functional staff, with line responsibility for technical support.

#### E.D.P. Development in the Coal Board

An outline E.D.P. system for integrated information processing for management, on the basis of Figure 2, was conceived in about 1948, but the original overall concept was too vast to tackle as a whole, particularly on the limited equipment then available. It was therefore decided initially to isolate each component of the main picture, and to deal with each separately, but in relation to the eventual whole.

On the theory that if the most complex problem could be solved (both within the data-processing system and in the surrounding organization) then the remaining components would give rise to fewer problems, wages accounting was selected, and in 1949 an outline wages system was devised for E.D.P.

The scientific minds occupied with computers at first dismissed the problem as being too simple. After being re-written, with the many processes in the computation of earnings in the coal industry expressed as algebraic formulae (with more than a hundred parameters), it was then admitted to be too difficult for any machine then available to solve. Planning went ahead, however, to design a system which could be operated on a small to medium-sized 'commercial' computer, when such a machine was marketed.

Detailed investigations then started to uncover anomalies; in 1950, only two years after nationalization, there were still many local agreements. The problem was whether to wait for rationalization of the whole complex system of calculating earnings, or to accept conditions as they were and devise systems to meet them. It was decided to concentrate on the main aim of making E.D.P. work, whatever the circumstances and however they might change. A specimen colliery in the south-western division was therefore taken for detailed study in conjunction with one of the punched-card companies.

It soon became clear that the problems of preparing the vast amount of input data would outweigh any problems within a computer system. Three years were occupied with these studies and experiments were made with several methods, with the following conclusion:

(a) The only two practicable methods were by using either punched cards or paper tapes.

(b) A large number of identification codes had to be incorporated in the input, with consequent liability to error in any form of manual punching. The error factor could be significantly reduced by using pre-punched cards, a technique not possible with paper tape.

(c) Using mark-sensing, variable information could then be added at the point of origin on to a card already coded in respect of identification data.

(d) Time and work details would therefore be recorded at each colliery by mark-sensing prepunched cards.

In 1954 only the three punched-card companies (British Tabulating Machine Co Ltd, I.B.M. (United Kingdom) Ltd, and Powers-Samas Accounting Machines Ltd) had any experience of preparing input by these means and of organizing cards preparatory to input to a data-processing system. They were therefore allotted one sample area each in which to put forward proposals for a selected colliery, in conjunction with our own E.D.P. team, within the laid down outline system already devised. This system basically contained the following main features, which still remain and are operated today:

- (a) For piece-workers, mostly working in groups (or 'contracts'), pre-punched cards would be marked with each man's time, additional cards for each contract being marked with the work items which, in aggregate, are shared by the men in the group in proportion to the time worked by each man (complications arise owing to transfers of men from one contract to another in changing conditions underground).
- (b) Daywagemen's time worked would be marked
- (c) Accounting controls would be established on the total shifts worked in each contract or cost centre.
- (d) The first computer operation would then be to ascertain the total earnings for each contract, and hence for each cost centre, producing costs and statistics.
- (e) Next, contract earnings would be allocated to each individual according to the time worked in each place of work.
- (f) A sorting operation would then bring all one man's earnings together, with any other allowances particular to the individual.
- (g) The final operation would be the normal tax and deductions calculations, and other operations of payroll, with the added complexity of the large number of possible deductions.

#### **Feasibility Study**

Detailed planning proceeded on these lines for the three sample collieries, one each in the Northern (Northumberland and Cumberland), Durham and West Midlands Divisions, and by 1956 were sufficiently promising for a feasibility study on the full integrated accounting concept to be started in a selected area in the East Midlands Division. Clearly, wages accounting alone, on a weekly cycle, would be an unbalanced load.

The first task in this overall study was to establish what information for management was essential within the existing framework of the flow of management information. Many returns and reports had been evolved during the evolution of the industry since nationalization, for local, divisional and central use, and a complete analysis was necessary. This indicated

the information field in which maximum use could be made of data, input once only but used for many different purposes, and also showed where the variety of output could be reduced to serve more than one purpose. These investigations and the overall systems design continued over the next two years.

Meanwhile, the punched-card companies had produced small computers and programmed calculators with drum storage, and as these became available they were installed in the pilot areas. In 1958 the first colliery, in the West Midlands Division, became operational on the complete wages accounting system, followed by the other two divisions the next year. In 1959 also in the West Midlands Division a full-area was processed successfully and all three installations have steadily developed. These pilot installations are still operating, on the same outline systems, in basically the same manner and are now (October 1962) processing earnings and payroll for about ninety-three thousand men, with all costs and statistics, each week.

These experimental installations have achieved their objectives in proving that:

- (a) The initial theories for E.D.P. operation of our complex wages requirements do in fact work in practice; and
- (b) E.D.P., in the right circumstances, and with the right balance of load of work to size of computer, is economical, the staff savings more than outweighing the machine cost.

It also became evident that a larger scale rationalization and standardization of processing methods and management information requirements might be achieved than had at one time been thought possible. Further, the results of these experiments enabled firm operating assessments to be made of the feasibility studies on integrated accounting in the East Midlands Division, and of the problems outside and around the computer, which experience had shown to be more difficult to solve than those within the E.D.P. system itself.

During 1958 and 1959, therefore, all companies then supplying computers joined in the East Midlands investigation, each devising his own methods of applying his particular equipment (available at that time) to operate the systems devised by the Board. This also gave us the opportunity of comparing the relative merits of different types of computer, besides different makes, and confirmed our view that medium-sized machines were best for this particular type of operation at this stage of the Board's development.

The other important conclusion was that an E.D.P. system for integrated information processing would only really be economic for areas of more than fifteen thousand manpower, wages accounting causing a peak load and thus determining the size of the installation. This is a marginal figure, most areas employing between ten thousand and twenty thousand men. A larger unit of operation would therefore be necessary for the optimum result, and the possibilities were investigated of serving more than one area

computer centre chthill Industrial Estate, ar EDINBURGH am Valley Trading Estate, ATESHEAD	No.	Type AEI 1010	Ancillaries ICT	Weekly Paid Industrial Staff 74,000	No. of Areas (Integrated Accounts)
ar EDINBURGH am Valley Trading Estate,	ļ		ICT	74,000	6
am Valley Trading Estate, ATESHEAD	2/3				
		1301	ICT	135,000	9
vic Centre, DNCASTER	1/2	ICT 1100	ICT	121,000	8
wton, ear LEIGH	1	AEI 1010	ICT	34,000	4
rry Hill, ANSFIELD	3	IBM 1401	IBM	92,000	6
idgtown, NNOCK	2/3	IBM 1401	IBM	43,000	3
edomen, TRAD MYNACH	3	IBM 1401	IBM	88,000	7
\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	oncaster  wton, ar Leigh  ry Hill, NSFIELD  dgtown, NNOCK	oncaster  wton, ar LEIGH  Try Hill, INSFIELD  dgtown, NNOCK  edomen, TRAD MYNACH	Mton, I AEI 1010  Ty Hill, 3 IBM 1401  dgtown, NOCK 2/3 IBM 1401  ddomen, TRAD MYNACH 3 IBM 1401	NCASTER	Note

Figure 4. Computer centres in the National Coal Board.

from a central E.D.P. system. There would be some organizational difficulties, but with increasing machine capacity and flexibility these were not considered to be insuperable; further, the outline system now envisaged full magnetic tape operation, with punched cards used solely as a mechanism for input.

#### **Divisional Computer Centres**

On January 2nd, 1960, the Board therefore took the policy decision to 'introduce E.D.P. techniques throughout the industry as quickly as possible' and to develop these, on the basis of a computer centre in each major division for the main data-processing tasks leading to fully integrated accounting and statistics. Divisional E.D.P. teams were set up, computer manufacturers were called into consultation, and these were allocated projects in divisions to give the necessary element of competition, with the proviso that installations were to be planned with equipment that could be demonstrated to be operationally available at a fixed point in time; a line had to be drawn (and inevitably some companies were on the wrong side of it) if installations were to be developed rapidly.

Since then specific projects have been devised and costed, schemes approved, orders placed for the equipment, buildings planned (and some nearly completed), and the staffing, administrative and organizational details evolved. The computers them-

selves will start being delivered this year (phased over the next three years) and the computer centres will begin to become operational early in 1963. The plan for the industry is shown in Figure 4.

The prime objective has been to evolve divisional computer centres which, while operating independently, conform broadly to an overall plan for the industry. The outline systems are common; we are adopting standard codes wherever possible so that information can, as required in later stages of development, be interchanged between one installation and the other. The concept is rather of one E.D.P. installation for the industry, developing for some years as seven separate but related entities.

It is not at present considered that there is a need for a separate computer centre to service headquarters. The great bulk of accounting and statistical work (i.e. information for management at the level of operational management) is carried out at areas and divisions, the main work at headquarters comprising consolidation, interpretation, and consequent policy determination. The other types of computer application referred to at the beginning of this paper, however, are mainly sponsored and operated from headquarters, at present using hired time at commercial service centres over a wide range of available computers; as these techniques are developed to routines, the divisional centres should become available for such processing.

(To be concluded.)

## Problems of the Smaller Practice - III

by R. W. SMITH, O.B.E., T.D., F.C.A.

THERE are so many of the problems of the smaller practice which arise out of the relationship with clients that I am bound to select for the purpose of this paper only one or two more which I consider of the greatest importance. — doubtless the others will emerge in the discussions that follow.

78. One of the most difficult of all is that of coping with seasonal work. In an examination of various smaller practices I find that more than three-quarters of all the clients terminate their accounts at December 31st or March 31st, and I believe this is by no means uncommon. This problem is aggravated by the fact that the office is flooded by tax demands in December and January, and tax returns and repayment claims from April onwards. From this year things are even worse as a result of the new style PIID, which will occupy a disproportionate amount of the smaller practitioners' time. In the smaller practice too there is less scope for continuous auditing because only in exceptional cases are the jobs large enough to permit this kind of working. Even the fact that Institute examinations take place at the end of May can be an embarrassment because out of a staff of a dozen or less the absence of one or two articled clerks on extended study leave at this time can involve a serious disruption of work. The seasonal problem is also there in the larger practice, but to nothing like the same extent. The reasons for this are that much more of the audit work can be carried on continuously, or at intervals through the year, tax work does not form such a high proportion of the routine and in many cases is dealt with by the clients' own tax specialists, and the effect of absences for holidays and other reasons can be spread more easily through a larger staff.

79. Unless he is able to take exceptional measures to cope with this problem, the smaller practitioner falls into the danger (consciously or unconsciously) of grading his work into that which should be dealt with in priority and that which does not require this treatment, merely because the client does not press for this – indeed in some cases the client is the deliberate procrastinator because he is cunning enough to know that delay in preparing his accounts can lead to delay in agreeing and paying his tax. But all this is not good for the profession. If we are to get a greater respect, reputation, complete ascendency over unqualified accountants, and a better reward for our services, then all work must be dealt with promptly regardless of seasonal peaks and the attend-

The concluding part of a paper presented at this year's Oxford Summer Course of The Institute of Chartered Accountants in England and Wales.

ant staff problems. The remedies here fall into two classes: those which we can achieve and what can be done outside our own field of activity.

80. In the latter sphere I consider that an enormous amount can be done by the Inland Revenue not only to assist us but also to reduce the volume of their own work. No one has yet produced a satisfactory explanation why all assessments have to be signed by a Commissioners meeting before the demands can be agreed and sent to the taxpayer, why all assessments have to be made at the same time of the year, why all tax has to be paid on January 1st or July 1st, why all tax returns have to be issued in April and sent back (if possible) in May, how if this miracle did happen the tax offices themselves would be able to examine them. And why when a mistake occurs in an assessment or demand is it almost invariably necessary to write not only to the Inspector but also the Collector, and to the client and very often to repeat the whole process over again when the second and even the final demands are issued with the same mistake still uncorrected? I am absolutely certain that in the vast majority of small cases the accounts, computation and tax return could all be submitted in one operation and the tax arising (or repayment) agreed and settled almost by return of post, and I am equally certain that a reform of this nature would receive the overwhelming support of tax officials, taxpayers and practitioners alike. It will also be obvious from what I have said elsewhere that a greater attention to accuracy on the part of the Revenue, particularly in small cases, could do much to relieve the pressure on accountants at these busy periods of the year.

81. So much too has been said on the subject of the abolition of Schedule A tax - at any rate in the case of owner-occupiers – that it continues to be a source of amazement that the Treasury still cling to this utterly outmoded method of collecting so-called revenue. We are now promised that this will be dealt with in the next Budget, but this remains to be seen. Most practitioners will agree when I say that they have very few cases of owner-occupied dwelling-houses which are not exempted from Schedule A by maintenance claims, and they will also agree that the fee they charge in connection with such work is on its own unprofitable. As for premises occupied for business purposes the charging of Schedule A is no more than a farce. Abolition of the Schedule A and the corresponding deduction from the Schedule D profits would leave everyone exactly as they were financially plus the benefit of time saved.

82. But are there not many ways in which we can help ourselves in this problem of seasonal work? In

the first place I do not think that we spend enough time, particularly in the smaller firms, examining our own management problems. If we did we should pay far more attention to the full productive use of our staffs and ourselves. We should find if we did this that among the smaller clients there is an almost fanatical adherence to December 31st or March 31st (and even April 5th) as a suitable accounting date. Why there should be in the minds of business men - and accountants in particular - any virtue in following the example of such an archaic and cumbersome precedent as that set by the United Kingdom Treasury I cannot understand. There can be little reason but mere custom that prompts many to adopt these dates for closing their books. I feel sure that most of us could carry out a review of our clients that do so and we should discover many for whom some other time of the year would not only be just as convenient, but to their advantage, the least of which might be that we could produce their accounts more quickly - for let us remember that most of the smaller business men do not produce their own accounts, but expect us to do so, though they may have a general idea of their trading results. This is another aspect of the same problem, that in the smaller practice the work carried out by the accountant for his client is greater in comparison with that done in the larger practice - and the smaller the size of the client the larger the proportion becomes. This process starts with the very small business where the accountant prepares the accounts by writing up the books from the original records, next comes the case where the client writes up some books but leaves the rest to the accountant, and so on through varying degrees until at the other end of the scale the client organization not only produces its own parent, subsidiary and consolidated accounts, but deals with most of its own tax problems, runs its own internal audit department, to say nothing of departments dealing with control of costs, stock, management and administration.

83. Therefore in addition to educating our clients about relatively simple matters such as changing accounting dates, can we not help them and help ourselves too by introducing them to methods of simplified book-keeping which in the smaller practice we can keep continually under supervision throughout the year, leading to a much shorter interval after the end of the year before the accounts are produced. The client would be deriving a definite benefit as a result of better advice and would not only be too pleased to recognize it, but would be quite certain to advise his friends about the improvement in his own affairs as a result of the progressive tactics of his accountant. It is all very well for us to complain about the exploits of some of the management consultants but at the smaller end of the business scale there is a crying need for sound advice on business methods the need for which can easily be diagnosed by the accountant who is in close touch with the business. Not only can he provide the diagnosis, but usually the remedy as well.

#### Relationship with Staff

84. From clients to staff, a close and natural sequence, and again possibly one of the major differences between the larger and the smaller practice is the much closer contact between principal and staff in the latter. He will see them daily, will be more aware of their moods and personal problems, and will inevitably be looked to for advice, help and criticism in such matters. There are of course advantages in this as well as difficulties.

85. Apart from the obvious problems that must arise as a result of such proximity the main difficulty facing the small practitioner in connection with staff is that of obtaining and keeping personnel of the best quality - and this naturally is inevitably bound up with the problem of what he can afford to pay - not merely in terms of cash, but in competition with all \* the other attractions that the large firm, and more especially big business, can offer. He is also in serious difficulty in providing progressive promotion for the best of his staff. On the other hand it is clear that there are still plenty of people today who prefer to be employed in a small unit where they are regarded as persons rather than numbers on a payroll. It is evident too that among some of the more recent entrants into the profession there is a noticeable disillusionment about the attraction of joining the large professional firm or going into commerce. We must remember that only within the last generation has there been a tendency for large numbers of qualified men to take this road - the earlier ones have now mostly reached senior positions - but what of their numerous followers? Only a small number are likely to achieve partnership status in the large professional firms, and only a small proportion of those entering industry can expect to reach the board of directors, or become departmental chiefs, whereas those who remain in the smaller practices have a very much likelier prospect of becoming their own masters. Although there is an immediate problem in attracting and retaining the right material, this problem is one which will begin to produce its own solution in this way. There is no certainty that this will happen, until a number of the other difficulties to which I have referred have been satisfactorily resolved - and I think it will be agreed that basically the essence of the problem is financial. Once again I am bound to say that the small practitioner must turn a critical eye on the way he runs his practice and ask the question whether he is getting the best value out of his staff whatever he is paying them. He would do well to give a close study to the quantity and quality of the output of each member of his staff - and indeed of himself, before complaining that the low fees he gets prevent him from paying better salaries. Poorly paid staff in these days are bound to be poor performers, and in an accountancy practice a serious source of risk. Shoddy work that has to be done again is dear at any price, and as we should be the first to recognize, carries a double volume of overheads. It may there-

fore be a more profitable proposition for the small practitioner to employ two good clerks for the price of three that are not so good, though I wonder how many of us look at the problem in this way.

86. Where the practice as well as being small is away from a large centre of population there are the special problems that arise because staff, clients and principals are thrown together in their normal everyday existence outside the office. I have already made some reference to this in the section of the paper dealing with the relationship with clients. Where staff are concerned as well it can lead to difficulties which can only be resolved by the exercise of infinite tact. I can only offer the smaller practitioner one piece of advice, and that is to set the standard himself that he would expect the others to copy. This applies as much to staff as everyone else. Let his own standard of performance, time-keeping, turnout, behaviour and discretion be such as he will hope his staff will copy, and he will have little to fear. This may seem obvious but it is remarkable how often these truisms can be overlooked, and when they are it takes a very long time to restore the shortcomings of an hour or so. Among the many ways in which we as a profession can advertise ourselves legitimately is that of letting the outside world know that we have a contented, well-found staff who take a pride in their work and the firm they work for.

87. Under this heading of staff I can perhaps refer to another subject which presents a completely different problem in a small practice. It is that of accommodation. In the smaller practice a much greater proportion of the work is carried out in offices occupied by the firm. At the other end of the scale much more of the work is done in clients' own offices. This of course produces different problems arising from travelling and time spent away from the office and the necessity for making use of hotels. It means that in the smaller firms accommodation, furniture and equipment have to be provided on the assumption that for considerable periods of the year all the staff may be working in their own office. Although we are well aware of the fantastically high rents which have to be paid for office accommodation in the best professional districts in the larger cities, these costs nevertheless constitute a smaller proportion of the gross income of such practices than that which applies in small practices. I do not think that this is necessarily compensated by the travelling and other expenses which are incurred by the larger firms such costs are normally recovered in the fees. This can easily lead to an acceptance of a lower standard of accommodation and working conditions in the smaller practice, which has a bad effect not only on staff but principals as well, and in its turn can lead to a lowering of standards of work. I am not suggesting that we should all start looking for accommodation in expensive blocks of offices wherever we are, but a tremendous amount can be done to improve the accommodation we already have by a careful study of

decorations and lighting, provision of chairs and desks of the right sizes sited to make the best use of available space, organizing the layout of rooms and location of staff so that they have as little wasted motion as possible — once again is not all this a matter of organization and management on which most of us feel we can give advice to our clients, and yet we completely fail in this duty which we owe to our own businesses? I have been in many practitioners' offices which have appalled me by the lack of attention paid to such affairs — when for a very modest expenditure the type of improvement I have suggested can easily be carried out — and this criticism is by no means confined to the smaller practices.

#### Relationship with Himself

88. The previous observation brings me very naturally to the small practitioner's relationship with, himself – and his partner. You will recall that I prefaced my remarks with an attempt at a definition by saying that for the purpose of this paper I was considering that the smaller practice is generally confined to not more than two partners.

89. It was in Mr Foad's paper that suggestions were offered that we should organize for peace of mind and that the test of a good organization is peace of mind. You will have realized in coming with me this far in a study of some of the problems of the smaller practice that there is very much to disturb the peace of mind of our small practitioner, and that anything he can do to acquire peace of mind is going to help him to give a better service to his clients. Foad's recommendations are that we have specialists looking after every branch of our client's work, that we have proof that the work we have delegated is being properly done, and that our work is designed so that we receive warning of plans going wrong, and that we control performance. I wonder how many small practitioners could justly claim that their organization provides for all these safeguards, for I do consider that this counsel of perfection is in a large measure beyond their reach. Nevertheless, I suggest that there is much that they can do, which for want of the inclination or opportunity of turning a critical eye upon their own affairs, is just not done.

90. It is my opinion first and foremost that the sole practitioner can, if he closely examines his own relationship with himself, have very little peace of mind at all if only for the reason that he has absolutely no one with whom he can discuss his doubts, difficulties and problems on equal terms. The two partner practice is to this extent better off. My advice, having seen quite a lot of the sole practitioner's life both from within and without, is to suggest that by becoming a partner with another he immediately divides the magnitude of his problems by two. I do not suggest that by continuing this process he will bring about a progressive reduction – I have already stated my opinion that there is a proper place in the

scheme of things for small practices. But what else can be done to make life easier?

91. Above all is the question of health. Too often do we hear from an overworked and worried professional man the observation that he cannot afford to be ill, or that he can only get away from his practice for a long week-end in the slack season, or that he hasn't had a proper holiday for years. Often this is said almost as a boast. Anyone in our profession and especially in small practices who is obliged to say this is doing the greatest possible disservice to himself, his clients and his partners. If staff need adequate holidays how much more do principals, with their greater responsibility, longer hours and week-end work. Therefore I give this advice, that firstly the smaller practitioner should make it an absolutely fixed rule that his name goes on the holiday roster for a proper holiday taken in one stretch, and not as a succession of long week-ends. Secondly, if it is a question of illness, however trivial, he takes proper medical advice. It is more difficult to persuade him to avoid evening and week-end work - possibly every one of us is guilty of this from time to time - but if it does have to be done it should be balanced by adequate relaxation in other directions - and for this I can commend nothing better than a visit to a summer course where all the ingredients for a cure for office staleness are perfectly blended.

92. In looking after himself the small practitioner is so often inclined to forget the advice which he gives to his own clients, who in this respect face the same problem as he himself. They are usually the smaller business men who have no one to deputize for them. He will advise them to insure against personal sickness and accident, so that at least they have an 'income' while out of action from these causes. But does he always review his own insurance position to see if he too is adequately covered against this kind of risk, or indeed covered at all?

93. What of insurance against professional negligence? I have heard it said more than once by a small practitioner that he cannot afford the premium, and in any case why should he need this kind of insurance since he supervises every job personally and most of his work is accountancy and not auditing. All I can say is that if he cannot afford the premium, how much less can he afford the claim - and I can assure him that a claim for professional negligence can arise in the most extraordinary and unexpected ways that he can least imagine. I also commend to the smaller practitioner that he should examine very closely his own mote when it comes to a question of insurance for loss of profits and other forms of consequential loss such as the cost of reproducing his own and clients' books and papers which have been destroyed by fire or other causes.

94. I think it is in this field that much more can be done by district societies to help the smaller practitioners, but first I suggest that they can help themselves, by joining the district societies and taking full

advantage of meetings and other activities of local members groups. A small practitioner should be able to feel that he can take his problems to an advisory committee of his district society and obtain help -- as things are at present I have a feeling that many are reluctant to ask for help and advice for fear of disclosing their own lack of experience to their fellow practitioners. Nothing could be worse for the profession.

95. It has been demonstrated by statistics that our profession – on the practising side at any rate – is one of the most poorly remunerated, surely if this be true it can perhaps mean that the service which we have to offer is poor by comparison. Anything we can do to improve the quality of the service must improve the rewards, financial and otherwise. And let us not forget those other rewards – which come from that most fascinating study of all – the study of human relationships – which I have tried to exemplify in this paper. (Concluded.)

# Weekly Notes

#### AMERICAN COMPANY REPORTS

NO American accountant designing a company report and accounts need ever be at a loss for precedents. The survey of accounting trends and techniques as disclosed by published financial statements, produced annually by The American Institute of Certified Public Accountants, reflects the practices followed by 600 of the leading commercial companies in the United States.

The sixteenth edition of this remarkable work of reference analyses reports for financial years ending within the calendar year 1961 and has, as before, five sections. The first and shortest deals with accounts in general and the second and longest with the balance sheet. This is followed by sections covering the profit and loss account and the profit and loss appropriation account. The fifth and last section, as is logical, considers the auditor's report. There are in all 101 tables showing the methods used in presenting the various items and the words employed to define or describe them. This feature is of especial interest because, in each instance, comparative figures for selected years back to 1950 are given, thus making trends and changes in techniques easily discernible.

The general impression to be gathered from a glance at these tabulations is that financial accounts in America appear to be approaching a standard form but that there are always a few individualists among the companies represented who prevent any one practice or fashion from becoming unanimous. This is a healthy state of affairs because the quest for truth is never-ending and the day when the American Institute has no further call to continue making this survey because all financial accounts (apart from the

figures) are exactly alike, would be an indication of frustration rather than of fulfilment.

#### DEVELOPING NEW PRODUCTS

AST week the Institute of Directors organized a conference on 'New products'. The President of the Board of Trade addressing the conference said that the Chancellor of the Exchequer had granted the recent tax concessions for capital investment in building and plant to encourage scientific research by companies of all sizes. He went on to say that the Government was involved in research in many ways. These included its responsibility for technical education, its role (now to be increased by the proposed establishment of boards responsible for training in different industries) in encouraging improved apprenticeship schemes and more advanced training and the work of the Department of Scientific and Industrial Research. The Government was also actively concerned with development where new ideas are translated into commercial terms. The Government helped here by placing development contracts.

The main responsibility for research and development must, however, according to the Minister, lie with industry so far as new products were concerned. He said there was enormous scope throughout industry for improving present methods and establishing new ones and very often a new product could be the basis of a new method. He quoted the example of the saving which can be made by the use of electronic control systems with machine tools. The value of a new product lies not only in itself but in the progress which may be achieved in related fields.

#### ABORTIVE CLAIM FOR ESTATE DUTY ON OVERSEAS PROPERTY

THE Inland Revenue have failed to sustain a claim for estate duty on settled United States dollar securities valued at £18,737 which passed on the death of a life-tenant domiciled in England. Mr



VER seven hundred entries have so far been received for *The Accountant* Annual Awards to be made in 1963 – the tenth year of the Awards.

The task of selecting the two winning reports and accounts (one from large companies and the other from 'smaller' companies) has been started by the Panel of Judges, under the chairmanship of Mr K. W. Mackinnon, M.B.E., T.D., O.C.

Companies are reminded, however, that they still have until January 31st, 1963, to submit their reports and accounts presented at annual meetings held in 1962. Entries should be addressed to The Secretary, The Accountant Annual Awards, 151 Strand, London WC2 - the only condition of entry being that the companies' shares are quoted on a recognized stock exchange in the United Kingdom.

#### Members of the Panel

Mr Donald V. House, F.C.A., a member of the Panel for the past six years, has retired following his appointment as a member of the Restrictive Practices Court.

Two new members of the Panel this year are Mr W. G. Campbell, B.A., F.C.A., a member of the

Restrictive Practices Court until his retirement earlier this year, and a former member of the Council of The Institute of Chartered Accountants in England and Wales; and Mr Hilary Scott, a partner in a leading firm of London solicitors, and a member of the Jenkins Committee on Company Law. The other members are:

Mr A. S. H. Dicker, M.B.E., F.C.A., a Past President of The Institute of Chartered Accountants in England and Wales.

Mr C. D. Gairdner, c.A., a member of The Institute of Chartered Accountants of Scotland and a partner in a London firm of chartered accountants.

Mr A. W. Giles, M.B.E., M.A., C.A., a member of The Institute of Chartered Accountants of Scotland and a managing director of Baring Brothers & Co Ltd.

Mr J. E. Harris, B.COM., F.A.C.C.A., a Past President and a member of the Council of The Association of Certified and Corporate Accountants, and managing director of Sogenique (Service) Ltd.

Mr J. A. Hunter, M.B.E., T.D., a member of the Council of The Stock Exchange, London, and a partner in a London firm of stockbrokers.

Mr Ian T. Morrow, C.A., F.C.W.A., a Past President and a member of the Council of The Institute of Cost and Works Accountants, and managing director of U.K. Optical Holdings Ltd.

Sir Richard Yeabsley, C.B.E., F.C.A., a member of the Council of The Institute of Chartered Accountants in England and Wales.

Mr Arthur E. Webb, Editor of The Accountant.

#### Lord Mayor to Present Awards

The Lord Mayor of London, Alderman Sir Ralph Perring, has kindly consented to present the Awards at the Mansion House on May 21st. Justice Plowman held in the High Court on December 5th, that the proper law regulating the disposition under or by reason of which the property passed on the death was not the law of England or of Scotland, within the meaning of section 28 (2) of the Finance Act, 1949. It followed that as the property was situate outside Great Britain it did not attract estate duty (Re Levick's Will Trusts; Ffennell v. C.I.R.).

The trusts on which the securities were held were created by the will of Sir Hugh Gwynne Levick who died in 1937 domiciled in South Africa. While on a visit to England in 1933 he made his will in English form and by it hesettled his residuary estate on trust for his wife for life, and after her death as to one-half for his son, Hugh Gwynne Levick, for life on protective trusts, with remainder over. The son died on January 7th, 1961, and the Inland Revenue claimed estate duty on the securities as being part of the fund whose income was being enjoyed by the son during his life. The trustees claimed exemption under section 28 (2).

It was conceded that the securities were movable property situate abroad, and the only question was whether English or South African law governed the will. The Revenue conceded that if South African law had forbidden the disposition in the will, it could not have taken effect. His lordship said (according to The Times, December 6th) that it was implicit in the majority opinions in the House of Lords in Philipson-Stow v. C.I.R. (39 A.T.C. 394) that the proper law regulating a disposition was the law from which the validity of that disposition stemmed. In the case of immovables it was the law of the place where the immovables were situate. But in the case of movables it was the law of the place where the disponer was domiciled. In this case the testator was domiciled in South Africa. Accordingly South African law applied and the securities were exempted from duty.

#### EX-BUILDERS NOT TRADING IN HOUSES

"HE Court of Appeal has affirmed the decision of Mr ■ Justice Wilberforce in Seaward Brothers v. Varty¹, dismissing the Inland Revenue appeal from it. Messrs Seaward were two brothers who had carried on business as building contractors. When contracting work was slack they had used the firm's resources to build houses. By August 1949, when the building business was sold to a company, 123 houses had been built in this way, but none of them was included in the sale of the business to the company. Thereafter the brothers sold houses from time to time and the Revenue made assessments on the surplus proceeds, on the ground that the sales were trading sales. The Special Commissioners confirmed the assessments, holding that the brothers had carried on a composite business, only part of which had been transferred to the company, so that the houses remained trading stock in the brothers' hands. The learned judge held that the concept of a 'composite business' was wrong and that there was no evidence to support a finding that the brothers had carried on two separate trades. The brothers' trade ceased when they made the transfer to the company, the retained houses then becoming investments. The Court of Appeal held (reported *The Financial Times* of December 6th) that the learned judge was right. They refused to give leave to the Inland Revenue to appeal to the House of Lords.

#### SEVEN-YEAR COVENANT UPHELD

N Monday the Court of Appeal upheld the decision of Pennycuick, J., in C.I.R. v. Verdon-Roe, in which he held that a deed of covenant was not caught by section 392 of the Income Tax Act, 1952. Mr Geoffrey Verdon-Roe executed a deed on March 14th, 1958, under which he covenanted with trustees to pay during the period of seven years from the date of the deed (or joint lives if shorter) a yearly sum of £2,000, the first of such payments to be made on the date of execution and subsequent payments on March 1st annually. The Revenue refused to allow deduction of the £2,000 for surtax for 1958-59, on the ground that it was for a period which could not exceed six years, and therefore was caught by section 392. They argued that on a proper construction of the deed the taxpayer had covenanted to make seven payments and no more, so that the last one would be due on March 1st, 1964. As the first one was on March 14th, 1958, it followed that the period could not exceed six years.

The Special Commissioners rejected this concontention of the Revenue and they allowed the tax-payer's appeal against his surtax assessment. Pennycuick, J., confirmed that decision and the Court of Appeal (records *The Guardian* of December 14th) has affirmed his decision. Moreover it refused to give the Revenue leave to appeal to the House of Lords on any terms. Thus a covenant in such a case has to be read as requiring the taxpayer to go on paying the annual sum on each March 1st, in the seven years beginning on March 14th, 1958; i.e. the last payment is to be made on March 1st, 1965, making eight payments in all. This decision must apply to very many cases.

#### PARTITIONS ARE STILL 'PLANT'

LAST week the Inland Revenue failed to induce the Court of Appeal to reverse the decision of Mr Justice Pennycuick in Jarrold v. John Good Sons Ltd (41 A.T.C. 170), which was briefly reported in our issue of June 16th. The company carried on business as a shipping agent at Hull, which included several departments, the number of employees in each department varying from time to time. It was a commercial necessity for the company's office accommodation to be flexible, so that separate departments could be expanded and contracted. The company had a steel-framed building, used partly as a warehouse and partly as offices. The office part was built on the company's instructions as a large open floor space in which removable partitions could be

<sup>1</sup> The Accountant, May 5th, 1962.

erected. The partitioning consisted of metal ribs with insets of hardboard sheeting and with doors and windows. Attachment was to the floor and ceiling, not laterally. The positioning could be done by the company's own maintenance staff.

The Revenue rejected the company's claim to capital allowances on the partitioning on the ground that it was neither plant nor machinery. The General Commissioners allowed the claim and their decision has now been affirmed both in the High Court and, according to *The Times* of December 8th, the Court of Appeal.

#### FIRE LOSSES

FIRE in industry and in the home so far this year have cost the country more than in the whole of any previous year, states the British Insurance

Association. During the first ten months, material damage estimated at £46,544,000 had been caused by fire -£2,364,000 more than the losses recorded during the whole of 1959, which until now was the country's worst year for fire damage.

Estimated fire wastage in October was £5,312,000. Two fires each caused damage estimated at more than half a million pounds and four others resulted in

damage estimated at over £100,000 each.

The director of the Fire Protection Association, Mr N. C. Strother Smith, states that quite clearly many industries were still failing to apply the elementary lessons of fire protection. A clear-cut plan of action to be followed by management and staff if fires broke out and foresight in factory design and layout would restrict the spread of fire and avoid really serious damage.

# This is My Life . . .

by An Industrious Accountant

#### CHAPTER 150

THEORIES of management have changed a lot since my early days. Like many of my colleagues, I find it difficult to try to change myself correspondingly. Like Alice with the Red Queen, I have to run ever faster to keep in the same place.

Last week the cost accountant came along with a revised make-up of the standing charges in our consequential loss insurance policy. He's young and keen, and had some sound suggestions. I'm rather rusty on these figures now, but I had to deal with a biggish claim once, so I brought experience to bear on the calculation. We had a most enjoyable discussion.

In mid-argument, Prinny, our personnel director, entered. He'd a relatively unimportant query, he explained graciously; don't let him interrupt our discussion; he'd gladly sit by and listen. Maybe, he said with the cheerful air of a man who doesn't believe it, he could learn something. I didn't believe he could, either, but I refrained from saying so.

When Costs had departed, Prinny proceeded to upbraid me, more in sorrow than in anger. 'You spend too much time on details,' he accused me. 'Why don't you delegate all that routine stuff? Let him learn to handle it himself.' My explanations that Costs had missed out a significant factor, that I had enjoyed the talk, were futile. 'Let him make his own mistakes,' rumbled Prinny. 'You should study what's-his-name's book on management principles – about top men getting too immersed in trivialities. You must Think Big.'

Later I visited our managing director. 'About this Common Market,' I opened up. 'Perhaps we could have a talk sometime. I've taken out figures for our

recent continental imports; the profit on these Italian

brocades, for example. . . . '

The M.D. didn't seem to be listening. 'It's really rather a problem for the sales manager,' he pointed out. 'He's doing a special study on it.' I replied that surely Scotty would need figures for his study, the director answered that doubtless he'd ask for them when he wanted them. I came back smartly that he certainly hadn't asked for them yet; 'In that case', the M.D. said smoothly, 'presumably he doesn't require them yet'.

Our managing director started his career as an engineer. We don't hold it against him, not usually anyhow, but you know how it is with engineers; they think they're born knowing everything about

figures. Just as if they were accountants.

However, I went along to Scotty, but he was buried in a study about motivational consumer research and market predictability evaluations, and only said 'Losh, mon, dinna fash me the noo.' In a way, salesmen are like engineers, only more so. You can't tell them anything. I told him to remember we'd gladly help him out whenever he got stuck, as usual, and left before he thought of an answer.

The door of the chairman's room was open, and he hailed me as I passed. He'd just finished writing his memoirs and was in great form. He wanted to know what our shirt factory annual sales were in 1937–1939, and how the plant repair charges compared with today's figures. Not exactly, of course, but approximately. I assured him I'd ring him back with the figures in just a few minutes, but he looked disappointed.

Do you have to look them up?' he queried. 'But then, I suppose you've not much time for costs nowadays. You're probably too immersed in Common Market problems and all that futuristic stuff.'

Well, you see what I mean. I seem to go backwards when I try to go forward. "Faster, faster," cried the Red Queen...". No wonder I become bad-tempered sometimes.

# Reviews

#### Registration of Commercial and Licence Agreements in the Common Market

by A. K. Lewis, B.Sc., Ll.B., and J. A. Kemp, B.Sc., F.C.S., F.C.I.P.A. (Butterworth & Co (Publishers) Ltd, London. 30s net; postage 1s 3d extra.)

As is at present the case in the United Kingdom, so under the Treaty of Rome which regulates the affairs of the European Economic Community, all restrictive agreements must be registered. Failure to do so renders them null and void, it also means heavy fines. There is inevitably considerable uncertainty as to how these provisions of the Treaty will operate, but the intentions of the legislators is quite clear. Messrs Lewis and Kemp will have performed a useful service for all firms which are signatories to such agreements, in the event of British entry into the E.E.C.

The meaning of the term 'agreement' is wide, covering as it does agreements with but two signatories to those prepared and enforced by trades associations. The new laws apply not only to agreements signed by nationals of the member countries of E.E.C.; it will also affect Anglo-American or English agreements if they come within the ambit of the Treaty provisions through trade between the nationals of these countries.

#### **International Monetary Policy**

Second edition by Dr W. M. SCAMMELL. (Macmillan & Co Ltd, London. 40s net.)

This is a well-written, carefully documented and cogently argued contribution to the subject of international monetary affairs. It covers both the problems of maintaining exchange equilibrium and the difficulties of the world's present system of international exchange with the dominating problem of liquidity.

Although the book is intended primarily for economists, it would be a great mistake to believe that its subject-matter can be comprehended only by such readers, or that the lessons therein for the world are the sole concern of economists. The accountant seeking information about the world's financial problems will find here a wealth of information in comprehensible form.

#### Investment and Growth Policies in British Industrial Firms

by Tibor Barna. (Cambridge University Press, London. 12s 6d net.)

This study, sponsored by the National Institute of Economic and Social Research, and written by a leading economic statistician, deals in the main with

rates of growth and investment in a sample of firms in two industries, food and electrical engineering, more especially domestic appliances and electronics.

The statistical foundation of the study is based on data culled from the annual reports of some hundred companies and further information derived from interviews with about half of the firms whose accounts were analysed. This is a challenging piece of writing; the author is highly critical of British industry and urges more intensive competition as the solution to the all too widespread malaise of inefficiency.

#### The Investor's Vade Mecum

by Charlotte Square. (William Blackwood & Sons Ltd, Edinburgh. 10s 6d net.)

There are very many guides to the intricacies of investment and this newcomer from Edinburgh is as sensible and readable as any of comparable scope. The author, who hails from the Georgian hinterlands of Princes Street, knows the markets expertly and holds out no prospects of sudden riches for the reader. The risks and rewards are fairly presented and the distinction between investment and speculation and the need for patience are properly stressed. Further, the propriety of taking advice only from authoritative sources is insisted upon. If the reader is unwell, the author points out, he does not consult a garage hand, nor does he go to his tailor if his drains smell. Even so, it is up to every would-be investor to be familiar with the basic principles of buying and selling stocks and shares. To know why prices fluctuate is a step towards being able to anticipate such fluctuations. This is always much more satisfactory and sometimes much more profitable - than reading all about it in the newspapers the morning after.

#### Piecework Abandoned

by Wilfred Brown. (Heinemann Publishers Ltd, London. 21s net.)

This is a short book describing the events in the Glacier Metal Co Ltd which led up to the abandonment of piecework and other incentive schemes and the adoption of hourly rates in their place. Mr Brown also does all he can to show the results of the change, while admitting that it is as impossible to measure these exactly as it is to measure the results of changing to piecework (pace the time studiers, who will be well advised to read Mr Brown's book before rushing into print in support of their yardsticks, since Mr Brown has some pertinent information on just this subject).

It is generally known in this country that American industry has ceased to feel any great enthusiasm for incentive schemes, while our own industries are still converting rapidly to personal incentive schemes. Because accountants must often be asked for advice on whether to go on to piecework or incentives or not, this book is highly relevant to them. Mr Brown is almost certainly right when he says that he is not

aware of any other detailed account of the effect of changing from piecework to hourly rates: presumably his evidence should at the least be considered.

In fact this is a book which is extremely worth reading for its own sake. It is short, well written (avoiding completely all the criticism of Mr Brown's earlier book *Exploration in Management*<sup>1</sup> of being difficult to read) and provocative not only on piecework, but also on 'consultation', management responsibilities, consultants, business mammoths, the Welfare State, and clocking on. This last might even be of direct interest to those practising firms which still make their staff 'sign the book': does this serve any useful purpose?

Mr Brown is talking once again about the Glacier Project. He has been concerned with this as managing director and now chairman since 1948. It has certainly produced a lot of ideas, and, having established the groundwork, is now ready to talk common sense of an uncomfortable kind on localized subjects. This is the first manifestation but there is more to come, including something on 'Pricing and expense control'.

Those who have not met the Glacier Project before might like to start with this book and then work backwards if they find themselves stimulated to do so: those who know of the project will wish to keep in touch with it. Apart from some poor punctuation the book is guaranteed only to raise blood pressure and never just to niggle.

#### SHORTER NOTICES

Taxation Key to Income Tax and Surtax, 1962–63, (Finance Act, 1962, edition). Edited by Percy F. Hughes. (Taxation Publishing Co Ltd. 12s 6d net; 13s by post.) Practitioners will be familiar with the format, utility and coverage of this perennial handbook. The fifty-fourth edition is fully up to the standard of its predecessors and students approaching their Final examination, who may be inclined to regard this booklet as no more than a reference handbook, will on closer examination find that it will make an agreeable companion to relieve the tedium of travelling and prove remarkably informative.

Banking, second edition, by W. J. Thorne. Home University Library 206. (Oxford University Press, London. 10s 6d net.) The attraction of this excellent brief outline of the development and structure of British banking, its readability apart, is that it has not been written primarily for a student audience by an academic, but by one who has spent his working life in banking. It is essentially descriptive and historical in character, but it provides a most readable exposition of the functions of the banking system in the modern economy and the manner in which they are performed. As such it merits a high place in the most useful Home University Library series.

FIRST STEPS IN BUSINESS TRAINING, second edition, by John Harrison. (Sir Isaac Pitman & Sons Ltd. 7s 6d.) This brief guide to office procedures, now completely revised by a new author, is intended for the new office boy or junior and, if experience with some offices is any guide, some of their seniors would also benefit from a reading of its clear exposition how to take phone messages, deal with the incoming and outgoing mail, checking invoices and statements, etc. This is the sort of book which any office should place in the hands of all its new juniors.

Notes on Economic Theory, by W. Reay Tolfree, A.C.I.S., A.I.B. (Sir Isaac Pitman & Sons Ltd, London. 7s net.) This little booklet is intended for the student wanting a concise pre-examination cram book. It will fit into the pocket and unlike many such books which are the pet hates of most teachers, is really quite well done. For one thing, intelligibility is not sacrificed upon the altar of brevity. The student who has read his basic texts could use this little work with profit.

#### RECENT PUBLICATIONS

THE APPRAISAL OF MANAGEMENT FOR EXECUTIVES AND INVESTORS, by Jackson Martindell. xviii+204 pp. 8½ × 6. \$4.75. Harper & Brothers, New York. Distributed in the United Kingdom by Hamish-Hamilton Ltd, London.

LEO AND THE MANAGERS, by J. R. M. Simmons, M.A. 174 pp. 9×6. 18s net. MacDonald & Co (Publishers) Ltd, London.

Kelly's Draftsman, eleventh edition, by W. J. Williams, B.A. lxxxi+862 pp. 9×6. 62s 6d net. Postage 2s 6d extra. Butterworth & Co (Publishers) Ltd, London.

SOME ASPECTS OF INDUSTRIAL FINANCE IN INDIA, by Dr George Rosen. xiv+144 pp. 8½×6. 49s. The Macmillan Co, London.

REVENUE - REPRINT FROM HALSBURY'S LAWS OF ENGLAND, PARTS 1-4. Third edition. 34+319 pp. 10×7. 44s 6d net. Postage 2s 3d extra. Butterworth & Co (Publishers) Ltd, London.

THE LIMITS OF BUSINESS ADMINISTRATION AND RESPONSIBILITY, by G. Prys Williams, M.B.E., B.COM., F.I.S. x+278 pp. 8×5½. 30s net. Pall Mall Press Ltd, Dunmow, Essex.

STATISTICAL SAMPLING FOR ACCOUNTING INFORMATION, by Richard M. Cyert and H. Justin Davidson. ix + 224 pp.  $9\frac{1}{2} \times 6\frac{1}{2}$ . \$7.95. Prentice-Hall, Inc., Englewood Cliffs, New Jersey.

COMPUTER LANGUAGE: An Autoinstructional Introduction to Fortran, by Harry L. Colman and Clarence Smallwood. xiv+112 pp. 9×6½. Card covers. 31s. McGraw-Hill Publishing Co Ltd, London.

DYNAMIC BUSINESS MANAGEMENT, by Harold Norcross, F.B.I.M., F.C.W.A., F.I.O.M. ix+150 pp. 9×6. 35s net. Business Publications Ltd in association with B. T. Batsford Ltd, London

What every Taxpayer should know about Income Tax, fifth edition, by David Shrand, M.Com., F.S.A.A., C.A.(S.A.). 143 pp. 8½ × 5½. Legal and Financial Publishing Co (Pty) Ltd, P.O. Box 3461, Cape Town.

THE QUANTUM OF DAMAGES, by David A. McI. Kemp, B.A. (CANTAB.), Margaret Sylvia Kemp, M.A.(CANTAB.) and C. J. C. McOustra, M.A.(CANTAB.). Volume 2, Fatal Injury Claims, second edition, with a foreword to the first edition by the late Lord Birkett. xxiii + 323 pp. 9 × 6. £2 75 6d net. (U.K. only). Sweet & Maxwell Ltd, London.

These books may be obtained from, or through, Gee & Co (Publishers) Limited, The City Library, 151 Strand, London WC2.

<sup>&</sup>lt;sup>1</sup> The subject of a leading article in *The Accountant* of September 3rd, 1960.

# Finance and Commerce

#### New Day

THIS week's reprint is provided by the accounts of New Day Holdings Ltd. Principal business is the New Day Furnishing Stores operating ninety-one shops. Other interests include food (Blower Brothers of Bolton), radio and television (Tates of Sunderland and Stockport), hardware (Edmund R. Goodrich of London with sixty-eight branches).

Through its transport section, the company has now gone into petrol and the motor business. As an initial experiment, the group has acquired ten petrol filling stations, the emphasis being on obtaining units selling mainly petrol and oil, but with sales and repairs of motor-cars involved in some cases. A separate management team for this new side of the business has been built up from the transport section in which approximately £85,000 has so far been invested.

The identity of these various New Day interests, their registered offices, number of branches and the towns where they operate is given in the last two pages of the annual report – a fact worth placing on record when, as happened recently, shareholders in a big public company failed at an annual meeting to obtain such information.

#### Clarification

With this year's accounts, a new formula has been adopted in the hire-purchase section of the business. Mr O. H. Frost, M.B.E., M.C., the chairman, notes that last year's 'streamlining' of the furnishing stores put that company on a more stable earning basis which should enable it better 'to weather the vagaries of future hire-purchase legislation'.

As a further step in this direction, the board, in full agreement with the auditors, has adopted a new and what is considered to be a more equitable method of calculating the provision for carry-forward of profit on uncompleted hire-purchase transactions. This new formula has the effect of retaining a part of the realizable gross margin on hire-purchase agreements entered into in the course of a year's trading, as an offset against some of the expenses incurred in obtaining that business. The amount carried forward under the new method, the chairman says, is more than adequate to meet all possible expenses incurred in the collection of outstanding instalments, and he

includes the net profit which will eventually accrue. He hopes the changes will 'simplify as well as clarify this complicated item'.

#### Changes

The new system entails several changes in the accounts. The first is the showing of trading profit in the consolidated profit and loss account after making the provision for carry-forward of profits on uncompleted hire-purchase transactions. The provision for this carry-forward is shown on the liabilities side of the balance sheet and the gross figure of 'Instalments outstanding on hire-purchase accounts less provision for doubtful accounts' is shown on the assets side. Last year's comparative figures have been adjusted accordingly.

Mr Frost points out that about 92 per cent of the group's hire-purchase business is done by New Day Furnishing Stores Ltd, and included in the consolidated profit and loss account is £238,686 which, under previous practice, would have been

carried forward.

A further adjustment in the accounts concerns £51,639 from 'Taxation estimated on profits of year' in respect of over-provision in prior years. A substantial part of this sum, Mr Frost explains, is due to concessions made by the Inland Revenue in regard to investment allowances on goods out on rental. The final result in group profit after tax is a figure of £250,276 against last year's £215,180.

#### **Bishop's Stores**

IN accordance with modern practice', said Mr G. E. Bradfield, chairman of Bishop's Stores Ltd, at the recent annual meeting, the board had decided to publish turnover figures. The company is expanding in self-service and also has a wholesale trade which includes a wholesale cash-and-carry department at Ruislip, Middlesex.

Mr Bradfield announced that retail turnover for the year to June 30th, 1962, was £3,184,000 and on the wholesale side, £5,830,000; the figures do not, of course, include inter-company sales. Current year retail turnover he expected to be about £3.7 million and wholesale about £7 million. We would suggest that next year the turnover figures might well appear in the accounts with the comparisons.

There is a new entry in the Bishop's Stores balance sheet this time: Share premium account £2,121. Notes explain the grant of options over 104,500 58 Ordinary shares to certain directors and senior employees at a price of 138 9d a share, exercisable before November 17th, 1971. Options covering 4,250 shares have been so exercised leaving 100,250 shares outstanding.

Another note explains that the balance on share premium account represents the consideration paid for the options and the premium on the shares

allotted thereunder.

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	30th June 1961 £ FIXED ASSETS	Freehold premises at cost Leasehold premises (long) per valuation Leasehold premises (long) at cost	Leasehold premises (short) at cost Leas amortization to date	2,066,675 Furniture, fittings, sur machinery, equipment	motor vehicles at cost less depreciation to date	2,307,389	SUBSIDIARY COMPANIES	250,191 CANASS OF COST OF STATES OVER SOLID STATES OF THE TANGIST ASSETS ACQUIRED, FESS AMOUNTS WRITTEN Off		962,497 CURRENT ASSETS			Sundry debtors, deposits and prepayments, less provisions Cash at bankers Cash in hand	2,806,219	The nates on bage [780] form part of these accounts	75 504 180
	<b>પ</b> ્ર	500,000 `500,000 750,000 714,000	1,250,000 1,214,000 826,132 26,543	852,675	134,406	14	89,091 141		51,250	147'114		70 021	758,554 1,687,160 99,120	91,109		2
_	Author- Issued and 30th June Ised fully paid 1962 £ £	500,000 500,000 750,000 714,000	١	869,885	250,000	326,840 2,410,725	114,634	236,255	46,890	598,596	30.09		741,768 2,012,286 128,341	901,19		56 453 103
CONSOLIDATED_BALANCE SHEET as at 30th June 1962		Share capital of New Day Holdings Limites 6 per cent cumulative pre- ference shares of £1 each Ordinary shares of £2 each 750,000	Share premium account, 826,132 General capital reserve 43,753	REVENUE RESERVES AND SURPLUS	General reserve Profit and loss account surplus at 30th June 1962	OUNT SET ASIDE FOR	FUTURE INCOME TAX  Three quarters of estimated 1962-63 liability Estimated 1963-64 liability	PROVISIONS Equalisation of repairs and	inaliteriance • Profit carried forward on un- completed hire purchase transactions	MORTGAGES secured on free- hold properties	AMOUNT DUE TO FINANCE COMPANIES Secured on rontal and hire purchase agreements			Final dividend on the ordinary shares of 54 per share (less income tax) for the year ended 30th June, 1962	OLIVER FROST) J. M. HUNT	

# NEW DAY HOLDINGS LIMITED AND SUBSIDIARY COMPANIES

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30th June 1962

<u> </u>				m 4
30th June 1961 £	487,996 2,820 490,816	63,079 33,403 4,793	512,101	389,541
30th June 1962 £	464,544 7,661 472,205	69,776 21,341 5,596	105,436	366,769
TRADING PROFIT after provision for carry forward of profit on uncompleted hire pur-	chase transactions and all trading expenses other than undermentioned (see note 1)  Non-recurring and other revenue	Deduct Depreciation and amortisation of fixed assets Emoluments of directors of holding company Audit fees and expenses	Goodwill purchased during year	GROUP PROFIT FOR TAXATION (see note I) Taxation estimated on profits of year (less • £51,639 adjustment in respect of nrior years)

LSI.639 adjus Income tax Profits tax

# 250,276 GROUP PROFIT AFTER TAXATION

215,180

174,361

116,493

71,786

125,577 48,784

Balance at 30th June 1961, brought forward Holding company Subsidiary companies

55,278 270,458

106,308 356,584

106,308

55,073 205

54,666 18,375 Dividends paid (less income tax)
On the 6 per cent comulative preference
shares for the year ended 30th June 1962.
Interim dividend on the ordinary shares of
3d per share for the year ended 30th June
1962. Transfer to general reserve

91,19 Final dividend on the ordinary shares of 5d per share for the year ended 30th June 1962 Proposed dividend (less income tax)

BALANCE CARRIED FOXWARD Holding company

The notes [in the next column] form part of these accounts

# NEW DAY HOLDINGS LIMITED AND SUBSIDIARY COMPANIES

# for the year ended 30th June 1962 NOTES ON ACCOUNTS

# PROFIT AND LOSS ACCOUNT

I The provision of £551,706 in respect of profit carried forward on uncompleted hire purchase transactions as 30th June 1982 has been calculated on a revised basis. Due to this change of basis an amount of £238,686 is included in the year's profit before taxation, which under the previous formula would have been carried forward.

2 Emoluments of directors of holding company comprise	747	7 T
res Management remuneration Pension to retired director in respect of executive service	18,341	28,389
	£21,341	£33,403
3 Audit fees and expenses are in respect of Holding company	250	250
Subsidiary companies	5,346	4,543
BALANCE SHEETS		
4 The holding company has guaranteed certain liabilities of subsidiary companies which at 30th June 1962 amounted to	ies which at	30th June
o in respect of bank overdrafts b in respect of a mortgage loan	1,478,022 59,000	

The amount of £2,012,286 due to bankers shown in the consolidated balance sheet is secured with the exception of an amount of £233,639 due by subsidiary companies at 30th June 1962.

6 At 30th June 1962 there were agreements outstanding for the acquisition of the whole of the share and loan capital of three companies for an aggregate amount of approximately £54,000.

46,600 Holding company Group Contracts for capital expenditure not provided for in these accounts outstanding at 30th June 1962 amounted approximately to Movement of reserves

d General capital reserve Balance at 30th June 1961 Net surplus arising on disposal of properties General reserve Balance at 30th June 1961 Add transfer from profit and loss account Balance at 30th June 1962

26,543 17,210

£43,753 134,406 115,594 £250,000

£9,253 9,253

134,406 250,000

# GENERAL

164,150

164,150

279,744

164,150

61,109

18,375 54,666

115,594

€106,308

£76,840

Balance at 30th June 1962

9 The accounts of the holding company and certain of the subsidiary companies in the group have for practical convenience been made up to the end of the trading week following the year end date.

10 The comparative figures shown in respect of the previous year have been adapted to the revised form of the accounts.

#### CITY NOTES

THE stock-market struggle between hopes and facts is currently running the way of facts. Sir Ivan Stedeford, chairman of Tube Investments, turned it that way in a statement pointing to a loss of business confidence, indicating that it would be next spring at the earliest before Government action began to tell in industry, and forecasting another fall in Tube Investments earnings.

Sir Ivan's statement reminded the stock-market that, even by this time next year, a number of leading companies will still be reporting lower earnings compared with 1961-62. When doubts about the Government's loss of political popularity and about the Common Market negotiations are added to earnings doubts, then it is hardly surprising that the equity sections of the stock-market find the going hard.

Pauses for readjustment, however, are part and parcel of recovery after a prolonged 'bear' market. At the same time it is difficult to see the basis on which a rampant 'bull' market can be as confidently predicted as it is in some quarters.

#### RATES AND PRICES

Closing prices, Wednesday, December 12th, 1962

Tax Reserve Certificates: (interest rate) 25.8.62 21%

	Bank	Rate	
Oct. 27, 1960	5½%	Nov. 2, 196	
Dec. 8, 1960	5%	Mar. 8, 196	
July 26, 1961	7%	Mar. 22, 19	62 5%
Oct. 5, 1961	$6\frac{1}{2}\%$	April 26, 19	)62 4½%
	Treasur	ry Bills	
Oct. 5 £3 125 4	:13d%	Nov. 9	{3 17s 1·60d%
Oct. 12 £3 128 3			(3 15s 11·09d%
	-22d%		(3 14s 9.03d%
	∙o3d%		(3 13s 9·47d%
Nov. 2 £3 16s 11	·48d%	Dec. 7	£3 13s 9.66d%
	Money	Rates	
Day to day 2	-4%	Bank Bills	
7 days 2	-37%	2 months	3 <del>18</del> -3 <del>8</del> %
Fine Trade Bills		3 months	3 13 -3 3 %
	-6%	4 months	3 18 - 3 8 %
4 months 5	-6%	6 months	3 13 - 3 15 %
6 months 5	<del>-61</del> %		
Fo	reign E	xchanges	
	reign E	xchanges Frankfurt	11.51
New York	_	Frankfurt Milan	1741}
New York Montreal Amsterdam	2·80 <del>11</del>	Frankfurt Milan Oslo	1741 <u>1</u> 20:02
New York Montreal Amsterdam 13 Brussels 13	2·80 <del>11</del> 3·01 <del>§</del>	Frankfurt Milan Oslo Paris	1741 <u>1</u> 20·02 13·73§
New York Montreal Amsterdam Brussels 13	2·80 <del>}}</del> 3·01 <del>§</del> 0·09 <del>§</del>	Frankfurt Milan Oslo	1741 <u>1</u> 20:02
New York Montreal Amsterdam Brussels 13	2·80 <del>11</del> 3·01 <del>§</del> 0·09 §	Frankfurt Milan Oslo Paris Zürich	1741 20·02 13·73 12·09
New York Montreal Amsterdam Brussels Copenhagen Consols 4%	2·80 11 3·01 15 0·09 15 9·39 12 9·34 12	Frankfurt Milan Oslo Paris Zürich	1741 20·02 13·73 12·09
New York Montreal Amsterdam Brussels Copenhagen  Consols 4% Consols 2½%	2·80 11 3·018 0·098 9·391 9·342 Gilt-e	Frankfurt Milan Oslo Paris Zürich dged Funding 3% Savings 3%	1741 1 20.02 1 1 3.73 8 1 2.09 8 8 5 6 6 7 0 8 8 5
New York Montreal Amsterdam Brussels Copenhagen  Consols 4% Consols 2½% Conv'sion 5½% 1974	2-80 11 3-01 18 0-09 18 9-39 12 9-34 12 Gilt-e 70 14 44 75 101 18	Frankfurt Milan Oslo Paris Zürich dged Funding 3% Savings 3% Savings 3%	1741 \\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\
New York  Montreal Amsterdam Brussels Copenhagen  Consols 4% Consols 2½% Conv'sion 5½% 1974 Conv'sion 5%	2-80 11 3-01 18 0-09 18 9-39 12 9-34 12 Gilt-e  70 14 44 7 101 18 109 18 xd	Frankfurt Milan Oslo Paris Zürich dged Funding 3% Savings 3% Savings 21%	17414 20-028 13-738 12-098 65-70 888 65-75 8188 65-75 9188
New York Montreal Amsterdam Brussels Copenhagen  Consols 4% Consols 2½% Conv'sion 5½% 1971 Conversion 3½% 1966	2-80 11 3-01 18 0-09 18 9-39 12 9-34 12 Gilt-e 70 12 40 13 101 18 109 18 xd	Frankfurt Milan Oslo Paris Zürich dged Funding 3% Savings 3% Savings 2½ Treas'ry 5½	17414 20·023 13·738 12·098 659-69 907 66-70 881 65-75 81 18 66-67 91 18 66-67 91 18 2008-12 98 18
New York Montreal Amsterdam Brussels Copenhagen  Consols 4% Consols 2½% Conv'sion 5½% 1971 Conversion 3½% 1966	2-80 11 3-01 18 0-09 18 9-39 12 9-34 12 Gilt-e 70 12 40 13 101 18 109 18 xd	Frankfurt Milan Oslo Paris Zürich dged Funding 3% Savings 3% Savings 325 Treas'ry 51 Treasury 5	17414 20.023 13.738 12.098 659-69 60-70 881 65-75 81 18 66-67 91 18 2008-12 98 18 86-89 938
New York Montreal Amsterdam Brussels Copenhagen  Consols 4% Consols 2½% Conv'sion 5½% 1974 Conv'sion 5½% Conversion 3½% Exchequer 5½% 1966	2-80 15 3-01 15 0-09 15 9-39 15 9-34 15 Gilt-e  70 17 16 9 18 xd  9 18 xd  9 18 xd  102 15	Frankfurt Milan Oslo Paris Zürich dged Funding 3% Savings 3% Savings 2½ Treas'ry 5 Treasury 5 Treasury 3	17414 20.023 13.738 12.098 659-69 60-70 881 65-75 8118 66-67 9188 86-89 938 12.788
New York Montreal Amsterdam Brussels Copenhagen  Consols 4% Consols 2½% Conv'sion 5½% 1974 Conv'sion 5½% 1974 Conversion 3½% Conversion 3½% 1966 Conversion 5½% 1966 F'ding 5½% 82-84	2-80 15 3-01 8 3-01 8 0-09 8 9-34 2 9-34 2 101 4 101 4 101 8 9-38 8 101 8 101 8 102 8 103 8 103 8 104 8 105 8 106 8 107 8 108 8 109 8 1	Frankfurt Milan Oslo Paris Zürich dged Funding 3% Savings 3% Savings 3% Savings 2½ Treas'ry 5½ Treasury 3 Treasury 3 Treasury 3	17414 20·028 13·738 12·098 659-69 66-70 881 65-75 8118 64-67 9118 86-89 938 19,77-80 808
New York  Montreal  Amsterdam  Brussels  Copenhagen  Consols 4%  Consols 2½%  Conv'sion 5½%  Conversion 3½%  Exchequer 5½%  F'ding 5½%  82-84  Funding 4%  60-90	2-80 1	Frankfurt Milan Oslo Paris Zürich dged Funding 3% Savings 3% Savings 3% Savings 2½ Treas'ry 5½ Treasury 3 Treasury 3 Treasury 3 Treasury 2 Treasury 2	17414 20-028 13-738 12-098 6-59-69 60-70 881 65-75 8186 64-67 9188 2008-12 9818 86-89 938 977-80 808
New York Montreal Amsterdam Brussels Copenhagen  Consols 4% Consols 2½% Conv'sion 5½% 1974 Conv'sion 5½% 1974 Conversion 3½% Conversion 3½% 1966 Conversion 5½% 1966 F'ding 5½% 82-84	2-80 15 3-01 8 3-01 8 0-09 8 9-34 2 9-34 2 101 4 101 4 101 8 9-38 8 101 8 101 8 102 8 103 8 103 8 104 8 105 8 106 8 107 8 108 8 109 8 1	Frankfurt Milan Oslo Paris Zürich dged Funding 3% Savings 3% Savings 3% Savings 2½ Treas'ry 5½ Treasury 3 Treasury 3 Treasury 3	17414 20·023 13·738 12·098 65-69 907 66-70 881 66-75 81 86 66-67 91 88 66-67 91 88 86-89 93 977-80 80 977-80
# Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

#### The Balance Sheet

SIR, – May one congratulate you on having published not only the full text of Mr W. E. Parker's address at the International Congress of Accounting (November 3rd and 10th issues) but also the stimulating article by Mr T. E. Gambling on 'Variation on the balance sheet theme' (November 10th issue). It seems that the balance sheet is receiving more attention at the moment, and I have read Mr Gambling's article with particular interest because of my own suggestions in a previous issue (The Accountant, August 25th, 1962) as to ways of dividing balance sheets. I trust therefore, that Mr Gambling will not think me presumptuous if I offer one or two suggestions arising from his article.

To begin with, his form of balance sheet in fact concentrates one's thoughts upon the fixed assets (though not described as such) and relegates working capital to a separate self-balancing schedule which, in the tabular form adopted, elongates the balance sheet in a manner which I personally would have thought undesirable in a published set of accounts. Secondly, it has the effect of attempting to relate current working capital to the historical investment of original capital moneys. This, in my opinion, is unnecessary, and I should have thought that the preservation of real capital was likely to be safeguarded more simply by the adoption of a series of indices related to the purchasing power of money, as suggested by Mr Parker. This, incidentally, provides for increased replacement costs whereas Mr Gambling's method does not. Further, a cash flow statement showing source and disposal of funds, over the whole history of the company, should, one would have thought, give the 'bridge' needed to understand the balance sheet.

Such a cash statement is seldom seen, but is of great assistance to the investigating accountant and it is somewhat surprising that it is not met with more often.

However, if Mr Gambling's basic contribution on this subject could be reduced to a single statement, I feel it could well become a most helpful one, as well as the stimulus it has undoubtedly already been to many readers; I have therefore dared to redraft it on those lines, together with my suggested cash statement, and include some specimen reserves for the increased values of assets on the basis of assumed

indices	(using I	Мr	Gamblin	g's	original	figures	as	a
basis for	my ow	n ex	rample),	as f	ollows:	J		

#### BALANCE SHEET OF X. LTD

BALANCE :	SHEET (	OF X. LTD	
Invested within the busine	ss:	, -, -, -	
	At cost adjusted to current money values	Deprecia- tion on adjusted costs	Net book values
Fixed Assets Freehold land and building	£ 65,000	£	£ 65,000
Plant and machinery	92,000	46,000	46,000
:	£157,000	64,000	111,000
Net Current Assets Current liquid assets Debtors Cash		32,000	
Casn		6,000	
Less Current liabilities Trade creditors	13,000	38,000	·
Current taxation Proposed dividend	12,000 8,000		
		33,000	
Add		5,000	
Non-liquid current asset Stock-in-trade Prepaid for expenses	54,000		
Less	62,000	•	
Accrued expenses	7,000	55,000	60,000
Invested outside the busi-			171,000
ness			
Trade investments – at cost adjusted to current money			
values			18,000
Deduct Debentures - 6 per cent (secured by a float-			189,000
ing charge)			25,000
			£,164,000
Represented by: Share capital		£	£
80,000 Ordinary share fully paid	es or £r e	acn,	80,000
Capital – on adjustmasset values Revenue	ent of f	ixed 60,000 14,000	
			74,000
Future taxation	• •	••	154,000
		•	£164,000
(Note Revenue rese	rves are £	28,000 as in	the original

example, less £14,000 additional depreciation.)

#### SOURCE AND DISPOSAL OF FUNDS

Source of Cash Funds	£	£
Capital subscribed by shareholders	·	80,000
Debentures		25,000
Profits earned (less dividends paid) plus tax provided not yet due Depreciation written off (including	24,000	
on plant sold) in arriving at profits	106,000	
		130,000
		£235,000
Disposal of Funds Fixed assets – at original cost (including plant costing £60,000		
sold		169,000
Net current assets		60,000
Trade investments – at cost		6,000
		£235,000
Yours faitl	hfully,	

London EC2. R. S. WALDRON.

#### Decimalizing the Currency

Sir, - Will Mr L. E. Leslie (December 1st issue) kindly tell us what proportion of retail price tickets are expressed in pounds?

> Yours truly, A. H. PROUD, Director and Secretary,

London W1. BOURNE & HOLLINGSWORTH LTD.

[Mr L. E. Leslie writes: Obviously those items priced at less than  $f_{i}$  each cannot be so expressed, but there are very many things that are. I refer, of course, to that part of any price consisting of a whole pound or pounds including, for the sake of argument, guineas, which unit would presumably disappear anyway. Typical examples of prices in pounds are – new and second-hand motor vehicles, motor cycles, carpets,

Even when prices over £1 are quoted in shillings, the shopper knows how many £1 notes are required.]

#### Training of Articled Pupils

SIR, - I was naturally pleased to see in your issue of December 8th, the unsolicited tribute paid in the letter from Messrs Whitehill Marsh Jackson & Co, to the introductory course for articled clerks started this autumn at the City of London College.

The letter refers to the course as being something shorter than the writers had envisaged. Your readers may like to know that we should not only welcome additional support for this six-week course but should be very ready to put on a longer one if a sufficient number of chartered accountants wish for it.

> Yours faithfully, A. J. McINTOSH, Director,

London EC2.

CITY OF LONDON COLLEGE.

#### Church Accounting in Nigeria

SIR, - I wonder whether there is among your readers anyone who would be in a position to consider spending two to four years doing a constructive job helping an African Church. We are an Anglican diocese, staffed, apart from myself, almost entirely by Nigerians. We have inherited from our mother diocese, from which we were divided four years ago, a highly centralized system of accounts which still has to be run from its offices.

With so much competition from Government and business we are unlikely to get and keep a Nigerian accountant of the calibre to run such a system. If we could get the right man from the United Kingdom (or, indeed, from elsewhere in the Commonwealth), for a few years, he could get clergy into operating their own bank accounts (a parish here is ten to twenty churches with State-aided schools attached), and train an assistant who could take over from him when the financial secretary's job had become that of an auditor rather than banker as it is at present. There is also constructive work to be done in the field of propaganda for planned giving.

It should be added that salary and allowances would be at mission, rather than commercial, rates.

Yours faithfully,

P.O. Box 31 Owerri, Nigeria. G. E. I. COCKIN, Bishop of Owerri.

[Arrangements have been made for anyone in the U.K. who may be interested to be seen in London, and we shall be glad to forward any letters to the proper quarter. Interested readers abroad should write to the Bishop at the address indicated. – Editor.]

# **Taxation Cases**

Full reports of the cases summarized in this column will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'.

#### Humbles v. Brooks

In the High Court of Justice (Chancery Division)
November 8th, 1962

(Before Mr Justice Ungoed-Thomas)

Income tax – Schedule E – Headmaster of school – Course at college for adult education – To improve background knowledge of subject taught – Whether fee paid deductible – Income Tax Act, 1952, Schedule 9, paragraph 7.

The respondent, the headmaster of a school, attended a course in history at a college for adult education during week-ends. His purpose in doing so was to improve his background knowledge of history, a subject which he had studied to G.C.E. 'O' level only. It was easier and time-saving to obtain this knowledge in that way than by reading textbooks. The fee was £9.

It was contended on behalf of the respondent that the fee was deductible in computing the amount of his Schedule E assessment. It was contended on behalf of the appellant that the deduction of the fee was barred by paragraph 7 of Schedule 9 to the Income Tax Act, 1952. The General Commissioners decided in favour of the respondent.

Held: as the attending the course was for the purpose of obtaining background information, and not for the purpose of preparing the respondent's own lectures, its deduction was inadmissible pursuant to paragraph 7 of Schedule 9 to the 1952 Act.

#### Leach v. Pogson

In the High Court of Justice (Chancery Division)
November 6th, 1962

(Before Mr Justice Ungoed-Thomas)

Income tax – Trade – Establishing and selling schools of motoring – Whether establishment and sale of first of thirty schools was a trading transaction – Registration of Business Names Act, 1916, section I – Income Tax Act, 1952, section 526.

The appellant organized a school of motoring in Hull in 1954, under the name of 'East Yorkshire School of Motoring'. Later in the same year he formed a company called East Yorkshire School of Motoring Ltd, but the company went into voluntary liquidation in the following year. The appellant bought the tangible assets, and continued the business himself under the name 'East Yorkshire School of Motoring'. On December 1st, 1955, a new company, East Yorkshire United School of Motoring Ltd, was incorporated. Its issued capital consisted of 15,000 fully-paid shares of £1, and 7,450 shares were alloted for cash and 7,550 for a consideration other than cash. Of the latter shares 7,536 were allotted to the appellant and the remaining fourteen to the seven driving instructors of the school. The 7,450 shares, which were paid for in cash, were allotted to fourteen individuals, some of whom were members of the staff of the company and others purely investors. Thereafter the appellant established other schools at other places, each under the name 'East Yorkshire School of Motoring', and there were thirty transactions of the kind.

It was contended by the appellant that his activities did not constitute the carrying on of any trade. It was contended for the respondent that the appellant had carried on a trade of turning motoring schools to advantage by way of selling driving licences and by way of selling schools. The Special

Commissioners decided in favour of the latter view. In the appeal to the High Court the appellant did not dispute that the Special Commissioners' decision was correct except in the case of the first school; and it was contended on behalf of the respondent that having regard to the number of transactions and to

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other elements of the case the Special Commissioners were entitled to decide that the initial transaction was also a trading transaction.

December 15th, 1962

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Held: the establishment and sale of the first school, as with the subsequent schools, was a trading transaction for tax purposes.

### C. A. R. B. S.

#### Chartered Accountants Retirement Benefit Scheme

We reproduce below the fifth annual accounts of C.A.R.B.S. for the year ended May 31st, 1962.

Income and Expenditure Account for the year ended May 31st, 1962

1961 £. Beneft 446 Ann				£. 978	£	1961 £ Members' Contribu	JTIONS Å	£. £. Aggregate to May 31st, May 31st,	£
4,926 Con	ributions returned on death			715		68,046 Section A 19,602 Section B		7961 1962 319,818 364,586 72,489 92,135	44,768 19,646
	Recoverable from insurers	••		1 400		19,002   Section B		9,800 12,225 200,304 261,006	2,425 60,702
12 Inter	est borne by the scheme	••	•		3	139,681	•	£602,411 £729,952	127,541
2,020 Sche	STRATION EXPENSES me secretaries remuneration					2,612 Commissions earner			2,656
- Actu	ces of Institute staff ary's fee	••		16		523 Deposit Interest			409
	t fee ing, stationery and sundries			. 76	•	- BALANCE, being excess	s of expenditure over	income	50
3,084 39 Balanc	being excess of income over e	xpenditur			3,112				
£3,135					£3,115	£3,135			£3,115

						_
1961 £		£	£	1961 £	££	
34,855 1,748 507 4,750 522	LABILITIES Insurers Beneficiary Other creditors Contributions in suspense less payments thereout to insurers The Institute of Chartered Accountants in England Wales Chartered Accountants Employees Superannuation Scheme	26,486 263 1,786 10 4,750		8,627 Bank balances	218 5,000 4,772 29,9 5,140	<b>190</b>
42,382	NOTE: The actuary reported as on May 31st, 1962, that the benefits of the scheme were fully insured and that, if future commissions earned and deposit interest received remained roughly equivalent to the expenses of administration, the fund would remain in a satisfactory condition, although it would not be possible to repay the balance due to the Institute of Chartered Accountants in England and Wales, The trustees concur with this opinion.		33,295	On behalf of Chartered Accountants Trustees Limited as trustees S. H. GILLETT DOUGLAS A. CLARKE Directors	1,835 3,5	305
£42,382			£33,295	£42,382	£33,	295

REPORT OF THE AUDITORS TO THE TRUSTEES OF THE CHARTERED ACCOUNTANTS RETIREMENT BENEFITS SCHEME We have examined the above balance sheet and income and expenditure account which in our opinion respectively gives a true and fair view of the state of the Scheme's affairs as at May 31st, 1262, and of its income and expenditure for the year ended on that date.

October 31st, 1962.

. W. Bingham L. W. DING.... LEONARD PELLS

#### C. A. E. S. S.

#### The Chartered Accountants Employees Superannuation Scheme

#### FIFTH REPORT OF THE COMMITTEE TO THE MEMBERS

The fifth annual general meeting of members of C.A.E.S.S will be held at the Hall of the Institute, Moorgate Place, London EC2, on Monday next, December 17th, at 2.30 p.m.

The contributions receivable in the year ended May 31st, 1962, amounted to £103,451 compared with £75,702 for the previous year. Members contributing to the scheme as at May 31st, 1962, totalled 1,067 and the number of firms participating was 229. In addition to contributing members, 112 members who have left the service of participating employers have retained paid-up pension rights in the scheme. The detailed figures are as follows:

gares are as ionows.	Males	Females
Total contributing membership as at May 31st, 1961	868	140
1962	154	20
	1,022	160
Less		
Withdrawals during the year	102	13
Total existing contributing membership as at May 31st, 1962 Total number of members retaining rights in the scheme but whose con-	920	147
tributions have ceased	107	5
Total number of members as at May		
31st, 1962	1,027	152

No deaths of members occurred during the year. The withdrawals arose through members leaving the service of participating firms. Refunds of contributions amounting in total to £2,944 were made to those members whose contributions were less than £100 thus entitling them to exercise their option to take a refund. The contribution suspense accounts of the participating firms were credited with the appropriate amounts under the provisions of Rule 15.

The liabilities of the fund were submitted to actuarial valuation as at May 31st, 1962. The committee has noted that the actuary in reporting a surplus of £2,910 has recommended that the surplus should be carried forward unappropriated. The committee has decided not to propose any alteration either of benefits or of

contributions.

The scheme is now firmly established. It offers a number of advantages over the private scheme and the committee commends it to the attention of those employers who for various reasons have not yet seriously considered participation in it. The scheme secretaries will be very pleased to discuss the matter with those interested.

Mr G. L. Yates Mercer retires from the committee under Clause 25 (11) of the Trust Deed and is eligible for re-election.

> R. W. L. EKE, Chairman.

#### Fund Account for the year ended May 31st, 1962

1961 £ 2,059	Benefits		£	£	1961 £ . 75,702	Contributions		£	£ 103,451	£
1,688 250 620 47 260 328	Administration Expenses  Scheme secretaries' remuneration Services of Institute staff Actuary's fee Legal and other professional charges Medical fees Audit fee Printing, stationery and sundries	**	2,073 250 525 132 23 235 211		6,718 298 362 7,378 68,324	D . (1 1 1 1		283	7,651	95,800
3,193 358*	*Surplus	••	•	3,449 535	7,290 985	7 7 7	: ::		9,237 1,160	
69,735 £74,629	BALANCE transferred to Accumulated Fund	••		99,893 1 <b>9</b> 3,877	6,305 £74,629	•			:	8,077 £103,877

#### Balance Sheet - May 31st, 1962

1961 £. 195,010 2,178 41 860 2,209	Accumulated Fund Balance at May 31st, 1961	£ £ 15,010 19,893 294,903 1,907 68 442		286,555 286,555 11 78 78 78 78 78
5,288 4,750	Deferred Liabilities Loan from The Institute of Chartered Accountants in England and Wales to meet initial expenses which the trustees intend to repay when surplus funds are available	2,417 4,750	13,558 4,675 INITIAL EXPENSES  Note: An actuarial valuation as on May 31st, 1962, made on the basis that the cost of benefits accruing in the future, together with future expenses, will be met by future contributions and interest thereon, showed a surplus of £2,910 after £893 of non-participation contributions in respect of members contracted out of the graduated State pension scheme had been set aside by the actuary as a special reserve. On the recommendation of the actuary the surplus is being carried forward unappropriated.	10,840 4,675
£205,048	•	£302,070	£205,048	£302,070

REPORT OF THE AUDITORS TO THE TRUSTEES OF THE CHARTERED ACCOUNTANTS EMPLOYEES SUPERANNUATION SCHEME
We have examined the above balance sheet and fund account which in our opinion respectively give a true and fair view of the state of affairs of the Fund as at May 31st, 1962, and of the relevant transactions for the year ended on that date.

October 31st, 1962.

L. W. BINGHAM Chartered Accountants

Schedule of Investments - May 31st, 1962

1961	Fixed Interest			Holding	Cost £ £	Middle Market Value £
4.990	34 per cent Funding Stock, 1999-2004				T T	L L
2,966	Associated Electrical Industries Ltd, 6 per cent Debenture Stock, 1978-83					
	3 per cent Savings Bonds, 1960-70			£2,150 £1,400	1,731	1,752
	3 per cent Savings Bonds, 1965-75	••		£1,400	1,001	1,008
	** **				2,732	2,760
	Variable Dividend			•		
4,301	Insurance Companies and Banks			2 000	4 201 .	5,250
4,082	Commercial Union Assurance Co Ltd.5s shares	••		2,000 2,250 375	4,301 5.206	13.357
4,002	Equity & Law Life Assurance Society Ltd £1 Shares	• • •		2,230	11,843	10,904
	General Accident Fire & Life Assurance Corporation Ltd Ordinary Stock	••		£587 ·	10,376	10,941
	Guardian Assurance Co Ltd Ordinary 5s Shares	••		4,000	9.671	10.842
9,215	Legal & General Assurance Society Ltd Ordinary 5s Shares	:		300	9,215	12,351
8.580	Northern & Employers Assurance Co Ltd Ordinary £1 Shares			1,500	8.580	12,303
7,329	Prudential Assurance Co Ltd 'A' 4s Shares			300	7,329	7,500
******	Royal Insurance Co Ltd Ordinary Stock			£825	6,907	6.758
*****	Barclays Bank Ltd Ordinary Stock			£3,000	10,478	14,325
	Midland Bank Ltd £1 Shares			2,000	7,686	9,350
5,775	National Provincial Bank Ltd £1 Shares			2,000	5,775	9,650
	•		• '		97,367	123,531
4 406	Investment Trusts			c 000	4.407	c ant
4,406 4,895	Anglo-American Securities Corporation Ltd Ordinary 5s Shares	••		6,000 17,136	4,406 4,895	6,225 10,881
5,485	Atlas Electric & General Trust Ltd Ordinary 5s Shares	••	•• •• ••	10,500	8,728	12,622
4,952	Continental Union Trust Co Ltd Ordinary 3s Shares	••		7,000	4,952	5,314
5,272	Edinburgh Investment Trust Ltd Deferred Stock	••		£3,000	5,272	6,450
4,537	English & Caledonian Investment Co Ltd Ordinary 5s Shares	••		8,500	6,111	10.295
12,557	Foreign & Colonial Investment Trust Co Ltd Ordinary 5s Shares	••		20,000	12,557	14,000
8.677	Guardian Investment Trust Co Ltd Ordinary 5s Shares	•••		15,000	8.677	10.813
11.147	International Investment Trust Ltd Ordinary 5s Shares			8,000	11.147	11.200
6.229	Lake View Investment Trust Ltd Ordinary 10s Shares	••		2.750	6,729	7,509
4,411	London Trust Co Ltd Deferred Stock			£1,500	4,411	8,100
9,715	Scottish National Trust Co Ltd Ordinary Stock			£2,750	10,215	11,239
4,956	Scottish Western Investment Co Ltd Ordinary Stock		<i></i>	£1,800	4,956	7,200
6,530	Second Scottish Investment Trust Co Ltd Ordinary Stock	••		£500	6,530	8,796
5,138	Sphere Investment Trust Ltd Ordinary 5s Shares	••		12,000	5.138	10.451
4,998	Trustees Corporation Ltd Ordinary Stock	• •	·· ·· ··	£1,650	5.748	12,293 9,900
5,278 4,878	United States Debenture Corporation Ltd Ordinary Stock	••	•• •• ••	£3,000	5,278	6,727
4,070	Witan Investment Co Ltd Ordinary 5s Shares	••		7,800	4,878	170,015
	Industrial		•		120,020	17 0,013
3,993	Shell Transport & Trading Co Ltd Ordinary Stock					•
	Distillers Co Ltd Ordinary 10s Shares			3,150	6,181	6,261
	Glaxo Group Ltd Ordinary Stock			£1,000	5,584	4,721
3,916	Great Universal Stores Ltd 'A' Ordinary Stock			£475	3,916	5,795
3,230	Imperial Chemical Industries Ltd Ordinary Stock			£3,830	8,275	9,814
7,961	Imperial Tobacco Co (of Great Britain & Ireland) Ltd Ordinary Stock			£2,300	7,961	5,463
6,416	Stewarts and Lloyds Ltd Ordinary £1 Shares			2,500	6.416	3,406
****	Beaumont Property Trust Ltd Ordinary 5s Shares	••		6,480	4,131	4,536
Process.	City Centre Properties Ltd Ordinary 5s Shares	••	•	3,400	10,594	11,050
	Peachey Property Corporation Ltd Ordinary 5s Shares	••		6,000	5,193	4,875
	St Martin's le Grand Property Co Ltd Ordinary 5s Shares	• •		5,000	7,577	7,438
	•				65,828	63,359
£186.815		_			£286.555	£359,665
E	•	-				MCCOMMUNICALE
	•					

#### THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

#### SPECIAL AND ORDINARY MEETINGS OF THE COUNCIL

At special and ordinary meetings of the Council held on Wednesday, December 5th, 1962, at the Hall of the Institute, Moorgate Place, London EC2, there were

present:

Mr Percy F. Carpenter, President, in the Chair; Mr Robert P. Winter, C.B.E., M.C., Vice-President; Messrs J. F. Allan, C. Percy Barrowcliff, W. L. Barrows, T. A. Hamilton Baynes, J. H. Bell, H. A. Benson, C.R.E., Sir William Carrington, Messrs G. T. E. Chamberlain, D. A. Clarke, Carrington, Messrs G. T. E. Chamberlain, D. A. Clarke, J. Clayton, C. Croxton-Smith, W. G. Densem, S. Dixon, W. W. Fea, Sir Harold Gillett, Bt, M.C., Messrs G. G. G. Goult, P. F. Granger, J. A. Jackson, H. O. Johnson, H. L. Layton, R. B. Leech, M.B.E., E. N. Macdonald, D.F.C., R. McNeil, J. H. Mann, M.B.E., R. P. Matthews, W. Bertram Nelson, C.B.E., W. E. Parker, C.B.E., S. J. Pears, F. E. Price, L. W. Robson, Sir Thomas Robson, M.B.E., Messrs J. D. Russell, R. G. Slack, J. E. Talbot, A. G. Thomas, A. H. Walton, V. Walton, F. J. Weeks, M. Wheatley Jones, E. F. G. Whinney, J. C. Montgomery Williams, E. K. Wright.

#### The Small Practitioner Inquiry

The Council has already announced that a questionnaire on such matters as fees, charging rates and remuneration is to be issued as soon as possible to all practising members. The draft of this questionnaire has been agreed and is to be used in a brief pilot survey. This pilot survey will be undertaken immediately and will be addressed to a small number of practising members in a variety of practices in different parts of the country. Members will be invited both to complete the questionnaire and to offer comments on its contents and on difficulties which may be experienced in its completion.

The experience of the pilot survey will be used to amend the questionnaire, if necessary, and to indicate any special features of the arrangements for the main survey. It is hoped that the final questionnaire will be sent to all practising members at about the end of February 1963.

#### **National Productivity Year**

Notes for talks given during National Productivity Year on 'The part the chartered accountant can play in productivity matters' are available, on application, at the offices of the Institute, for the use of any member who may be invited to speak at functions in connection with the National Productivity Year.

#### Attendances of Representatives at Meetings of **European Bodies**

The Council received reports on attendances by representatives of the Institute at the following meetings: (a) Nederlands Instituut van Accountants

Attendance by the Chairman of the Overseas Relations Committee (Sir Thomas Robson) and the Joint Secretary (Mr F. M. Wilkinson) at the Accountants' Yearday in Amsterdam from November 1st to 4th, 1962;

(b) Institut der Wirtschaftsprüfer

Attendance by the Chairman of the Overseas Relations Committee (Sir Thomas Robson) and the foint

Secretary (Mr F. M. Wilkinson) at the Arbeitstagung in Baden-Baden from November 13th to 16th, 1962;

(c) Föreningen Auktoriserade Revisorer

Attendance by the President (Mr P. F. Carpenter) and the Joint Secretary (Mr C. Evan-Jones) at the fiftieth anniversary celebrations in Stockholm on November 16th and 17th, 1962, of the establishment of authorized public accountants in Sweden.

At that meeting the President presented a resolution

in the following terms:

'At a meeting held on November 7th, 1962, in the Council Chamber at Moorgate Place, London, the Council of The Institute of Chartered Accountants in England and Wales resolved to convey to the Föreningen Auktoriserade Revisorer, on the occasion of the fiftieth anniversary of the establishment of Authorized Public Accountants in Sweden, the congratulations of the Council and best wishes for the future progress and prosperity of the Föreningen Auktoriserade Revisorer.'

#### Appointment to Committee

Mr J. F. Allan was appointed to serve on the Investigation Committee.

#### Registration of Articles

The Secretary reported the registration of 566 articles of clerkship during the last month, the total number since January 1st, 1962, being 2,825.

#### Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

Abdulla, Mohamed Hassanali, A.C.A., a1962; M. H. Abdulla & Co and \*Zavahir Z. Alibhai & Co, Jubilee Insurance Building, P.O. Box 1555, Mombasa; also at Zanzibar, M. H. Abdulla & Co.

Barrell, (Miss) Marlene Lilian, A.C.A., a1961; 'Red Roofs',

Usk Road, Pontypool, Mon.
Brown, James Edmund, A.C.A., a1955; Thornton Baker &
Co, 24B High Street, Aylesbury, Bucks.

Burns, Colin Ernest Brodie, A.C.A., aS1957; 8 Penshurst Avenue, Sidcup, Kent.

a indicates the year of admission to the Institute.

aS indicates the year of admission to The Society of Incorporated Accountants.

Firms not marked † or \* are composed wholly of members of the Institute.

†Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

\*against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and

††against the name of a firm indicates that the firm includes an incorporated accountant member of the Institute and is composed wholly of members of one or another of the three Institutes of chartered accountants in Great Britain and

Cann, Christopher Richard, A.C.A., a1959; Thorne, Lancaster & Co, Hillgate House, 26 Old Bailey, London EC4.

Chandler, John Arthur, A.C.A., aS1953; \*Elias, Chandler & Co, Wellington Square, London, Ontario, Canada.

Collett, Christopher, M.A., A.C.A., a1958; Cassleton Elliott & Co, 4 & 6 Throgmorton Avenue, London EC2.

Davis, David Thomas, B.Sc. (ECON.), A.C.A., a1956; 73 Ethelburga House, 91 & 93 Bishopsgate, London EC2.

Dobson, Peter, F.C.A., aS1951; Fawley Judge & Easton,

1 Parliament Street, Hull.

Duckett, Jeremy Ernest, A.C.A., a1962; 423 Green Lane,

Finham, Coventry.

Emmerson, Brian Frank, F.C.A., a1948; Broads, Paterson & Co, Arthur Young & Company and \*Arthur Young & Company, Moor House, London Wall, London EC2, for other towns see \*Arthur Young & Company.

Emerton, Philip John, A.C.A., a1958; Oak Tree Cottage,

Mattingley, Hants.

Gittins, Peter Laurie, A.C.A., aS1953; Russell & Mason, 139 Temple Chambers, Temple Avenue, London EC4. Gold, Henry, A.C.A., a1962; I Peter Avenue, Willesden, London NW10.

Gooday, Ernest George, A.C.A., a1959; Gooday & Co, 75 Gray's Inn Road, London WC1.

Goonting, Dennis Gilbert, A.C.A., a1958; \*Cooper Brothers & Co, and \*Coopers & Lybrand, Mercantile Bank Building, Jalan Pasar (P.O. Box 184), Kuala Lumpur, Malaya, for other towns and firms see under Cooper Brothers & Co and associated firms.

Grays, Frederick Louis, A.C.A., a1962; 6 Park Way, Friern

Barnet, London N20.

Green, Eric James, A.C.A., aS1953; 50 Green Lane, Eltham.

London SEq.

Hall, Stephen Hargreaves, M.A., A.C.A., a1960; Buckley, Hall, Devin & Co, National Provincial Chambers, Silver Street, Hull, and at Bridlington, London, Market Weighton and Scarborough.

Hicks, Denis George, A.C.A., a1957; D. G. Hicks & Co, 394

Bury St West, Edmonton, London No.

Hone, Harold, Brindley, F.S.A.A., aS1934; ††Spain Brothers, McNab & Co, 14 St John's Road, Tunbridge Wells, Kent. Hudson, Graham Leslie, A.C.A., a1959; Thorne, Lancaster & Co, Hillgate House, 26 Old Bailey, London EC4.

Ince, Noel James, A.C.A., a1959; J. Wild & Co, 72/76 Blackburn Street, Radcliffe, Manchester.

Johnson, David John Crump, A.C.A., a1962; \*Stanley C. Johnson & Son, 22 Worcester Street, Stourbridge, Worcs. Kwan, Robert Chiu Yin, B.A., A.C.A., a1962; \*M. W. Kwan & Co, 14-16 Pedder Street, 1st Floor, Hong Kong.

Lattey, Derek Brian Tabor, M.A., A.C.A., a1948; Woolger, Hennell, Scott-Mitchell & Co, Moorfields Chambers,

165-167 Moorgate, London EC2.

Lavin, John Brendan, A.C.A., a1960; 'Homewood,' Shawes Drive, Anderton, near Chorley, Lancs.

Laycock, Frank Raymond, F.C.A., a1951; \*Wood & Hoyle,

Kirkgate Buildings, Huddersfield.

Lomax, George Alan Riley, B.A.(com.), A.C.A., a1958; J. Wild & Co, 72/76 Blackburn Street, Radcliffe, Manchester.

Lucas, John A.C.A., a1954; \*Barton Mayhew & Turquand Youngs A.G. Dreikönigstrasse 7, Zürich 2, Switzerland, and at Berne.

McHugo, Brian Eyre, B.A., A.C.A., a1956; †Whinney, Murray & Co, Schweizergasse 6, Zürich, Switzerland, and at Geneva.

Midwinter, Henry Errol, A.C.A., a1962; 105 Station Road. Didcot, Berks.

Morris, James Hurst, F.C.A., a1940; †Edward Ryan & Co, 19 Acresfield, Bolton.

Milston, Jeffrey, A.C.A., a1962; Milston & Co, 150 Green

Lane, Edgware, Middlesex.

Nicholson, David Brady, A.C.A., a1962; Nicholson, Fraser & Co, 14 Dartmouth Street, London SW1, and at Hove. Norfolk, Stanley, F.C.A., a1951; Welsford, Jennings & Co, 9 Union Court, Old Broad Street, London EC2.

Nyman, Edwin Matthew, A.C.A., a1962; E. M. Nyman & Co, 120/121 Newgate Street, Holborn, London EC1, and 175 Salmon Street, Kingsbury, London NW9.

Oury, Brian Robert, A.C.A., a1962; Walter H. Oury & Co, 38 High Street, Maidenhead, Berks, and at Slough.

Pangbourne, John Richard, A.C.A., a1960; \*Dorrell, Oliver & Co, Linden House, Monk Street, Abergavenny, Mon. Phillips, Simon Francis, A.C.A., a1957; Broads, Paterson & Co, Arthur Young & Company, and \*Arthur Young & Company, Moor House, London Wall, London EC2; for other towns see \*Arthur Young & Company.

Rollason, William Henry, A.C.A., a1962; Ault & Co, York House, 38 Great Charles Street, Birmingham 3. Rumney, William Locker, A.C.A., a1957; 14 Lea Road, Lea,

near Preston.

Sadler, David Albert, A.C.A., a1962; Peerless Hotel, High Street, Tenby, Pembs.

Salisbury, Geoffrey Norman, A.C.A., a1953; G. N. Salisbury & Co, Beacon Buildings, Leighswood Road, Aldridge, Staffs.

Sen, Benoy Kumar, B.A. (COM.), F.C.A., a1936; B. K. Sen & Co, 11 Old Post Office Street, Calcutta 1.

Sutcliffe, Frank, F.C.A., 1950; \*Deloitte, Plender, Griffiths, Annan & Co, Charter House (P.O. Box 138), Ndola, Northern Rhodesia, for other towns see \*Deloitte, Plender, Griffiths, Annan & Co.

Taylor, Kenneth John, A.C.A., a1962; Kenneth Taylor & Co, 9 Berkeley Court, Baker Street, London NW1.

van der Merwe, David Barend, A.S.A.A., a1961; \*Deloitte, Plender, Griffiths, Annan & Co, 501 City Centre, Kaiser Street, (P.O. Box 47), Windhoek, South West Africa, for other towns see \*Deloitte, Plender, Griffiths, Annan & Co. Waller, Colin Leslie, A.C.A., a1962; 38 Valley Road, Streatham, London SW16.

Walton, William Alan, A.C.A., a1960; 14 Trafford Close,

Great Missenden, Bucks.

Whyatt, Lyndon Buchan, A.C.A., a1958; \*Edward Thomas Collins & Son and Kinnersley & Shipton, 28 Baldwin Street, Bristol 1.

Worsley, Michael David, B.Sc., A.C.A., a1962; 4 Longford

Avenue, Southall, Middx.

#### Re-admission to Membership

Subject to payment of the amount required by the Council one former member of the Institute was re-admitted to membership under clause 23 of the supplemental Royal Charter. One application under clause 23 was refused.

It was reported to the Council that the following readmissions, made at the Council meeting on November 7th, 1962, subject to payment of the amounts required,

had become effective:

Bowler, Gordon Roger, A.C.A., with Moore, Scott & Williams, 49 Widemarsh Street, Hereford.

Davis, Harold Edwin Coate, F.C.A., Harold Davis & Co, 178 High Street, Somerset.

Griffiths, Norman, F.C.A., 9 Harrod Drive, Birkdale, Southport.

Palmer, Robert Percival, F.C.A., Chesterton Priory, near Peterborough.

It was also reported to the Council that one readmission made at the Council meeting on November 7th, 1962, had failed to become effective by reason of non-payment of the prescribed sum by the given date.

#### Change of Name

The Secretary reported that the following changes of name have been made in the Institute's records:

Barnett, Robert Maurice to Breckman, Robert Michael. Browne, Bernard James Dennis to Dennis-Browne, Bernard James

Weissberger, Edgar Cecil James to Whitby, Edgar Cecil James.

#### Resignations

The Council accepted the resignations from membership of the Institute of:

McBurnie, Douglas, F.C.A., a1920; Abbey House, Westminster, London SW1.

and of the following members with effect from December 31st, 1962:

Atkins, Wilfred John, F.C.A., a1925; Maurice J. Bushell & Co, 16 Museum Street, Ipswich.

Barrow, Francis George, B.Sc., F.C.A., a1922; 164 Belgrave Road, Leicester.

Cook, Harry Laurence, F.C.A., a1924; 6 Oak Tree Close, Burpham, Guildford.

Godkin, Jack Noel, F.C.A., aS1911; 'Forest Edge', Beacon Road, Loughborough, Leics.

Jolliffe, George Graham, F.C.A., a1910; 'Wyecroft', St John.

Jersey, C.I.
Mott, Tom, B.A., F.C.A., a1932; 3 The Wardrobe, Old
Palace Yard, Richmond, Surrey.

Palmer, George Henry, M.B.B., F.C.A., a1923; 25 Lawrence Grove, Henleaze, Bristol.

Walmesley, John, F.C.A., a1911; Bowden, Bass, Cox & Co, 328 Lambton Quay, Wellington, C.I., New Zealand.

#### **Deaths of Members**

The Council received with regret the Secretary's report of the deaths of the following members:

Mr Percy Toothill, F.C.A., Sheffield, a member of The Society of Incorporated Accountants from 1924 and President of the Society, 1939-42.

Thomas Francis Alston, F.C.A., Manchester. Percy Septimus Cowell, F.C.A., Lyme Regis. Herbert Eccles, F.C.A., Blackburn.

John Angus Lancaster Gunn, C.B.E., F.S.A.A., Sydney. Charles James Harvey, F.C.A., Plymouth. Frederick Norton Hiles, F.C.A., Grasmere, South

Australia.

John Henry Humphries, F.S.A.A., London. David George Jackson, B.A., F.C.A., London. Frederic Maurice Jones, F.C.A., Manchester.

Raymond Wallace May, F.C.A., Solihull. William Ewart Mountford, F.C.A., Stafford.

Harry Daking Sheldrake, F.C.A., Frinton-on-Sea. Clarence Percival Stanley, F.C.A., Birmingham.

Charles Watts, F.C.A., Torquay.

William James Robert Watts, F.C.A., Heswall. William Westall, F.C.A., Morcambe and Heysham.

John Wild, F.C.A., Lytham St Annes. John Gilbert Wright, F.C.A., Hove.

#### FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21st, 1948, at hearings held on October 25th and November 7th, 1962.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a clerk under articles to a Fellow of the Institute was at a Magistrates' Court convicted for that he did feloniously steal the sum of £6, so as to render himself liable to be declared unfit to become a member of the Institute. The Committee found that the formal complaint against the articled clerk had been proved and ordered that he be reprimanded but that there existed special circumstances justifying the omission of his name from the publication of the finding and decision.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that John Desmond Marsden Ellis, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of clause 21 of the supplemental Royal Charter in that (a) he failed to perform his duties under the Bankruptcy Acts, 1914 and 1926, as a trustee in the bankruptcies of three persons by omitting to render accounts and by needlessly protracting his trusteeships without any probable advantage to the creditors and was removed from office by the Board of Trade by reason of such failure, and (b) he failed to reply to or take any action in respect of three letters addressed to him by the Secretary and an Under-Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against John Desmond Marsden Ellis had been proved and the Committee ordered that John Desmond Marsden Ellis of The High Street, Bourton-on-the-Water, Gloucestershire, be excluded from membership of the Institute. •

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Trevor Richard Hatton, A.C.A., was at the General Session held in the Old Bailey on January 30th, 1962, convicted on indictment for that he conspired together with other persons to incite divers persons to commit a breach of section 1 of the Official Secrets Act, 1911, and for that he conspired together with other persons to commit a breach of section 1 of the Official Secrets Act, 1911, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Trevor Richard Hatton, A.C.A., had been proved and the Committee ordered that Trevor Richard Hatton, A.C.A., now in one of H.M. Prisons, be admonished.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that John Gordon Hurst, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of clause 21 of the supplemental Royal Charter in that he failed (a) within a reasonable time or at all to deal with or answer repeated requests made to him by a firm of chartered accountants to hand over the books and papers and to give information relating to the affairs of Mr and Mrs X. for whom he previously acted as accountant; (b) to answer or take any action in response to two letters addressed to him by the Secretary and by an Under-Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against John Gordon Hurst, F.C.A., had been proved and the Committee ordered that John Gordon Hurst, F.C.A., of 89 London Road, Leicester, be reprimanded.

## The 'Institution of Institutions'

#### City of London Toasted at Women Chartered Accountants' Dinner

It was but a cheap display of intellectual snobbery to engage in the arid practice of turning the cold light of logic on the institutions of the City of London; far better to turn on the warm light of history and see what that disclosed, said Mr Desmond Heap, LL.M., Solicitor and Comptroller of the City of London, as principal guest at the annual dinner in London last week of the Women Chartered Accountants' Dining Society.

Mr Heap, who was replying to the toast of 'The City of London', had just completed a light-hearted review of its history. He said that it was entirely pertinent to mention that the recently-published report of the Royal Commission on Local Government in Greater London had declared that a sense of history and tradition was needed to support the sense of community necessary to successful local government. The City of London was unlike any other municipality. Its wealth, its antiquity, the enormous part it had played in the history of the nation, its dignity and its traditions and historical ceremonial made it an institution of national importance.

#### City's Origins are pre-Christian

It was right to think, said Mr Heap, that in the City there was gathered together the living and burning soul of England. 'When a man is tired of London then he is tired of life.' So said Dr Johnson, and he was certainly right, he added.

The Corporation of the City was the institution of institutions, Mr Heap went on. The Bank, the Stock Exchange, the Baltic, the Royal Exchange were all wonderful stories, but the most ancient of all was the City Corporation – 'we just don't know when it began, but there is a fundamental argument that its origins were pre-Christian'.

The toast was proposed by Miss H. E. Hartley, M.A., A.C.A., a member of the Committee of the Society. She said that the City meant finance and banking, and women would seem to play a minor part in running the famous institutions centred round the Bank. Those who were members of the Institute, however, had to learn about this abstruse work of dealing with bits of paper because 'the City' was the acme of general commercial and financial knowledge.

She said that since Roman times it had been Britain's main trading centre and now 'the square mile' contained the greatest concentration of wealth in the world. One-sixth of Great Britain's assessable profits were made there, and it was fitting that the present Lord Mayor, the 635th, was leading a new export drive.

The casual visitor, however, was hardly impressed by the City's physical layout. The buildings were either a mixture of Victorian red brick and Georgian concrete, or twenty-storey glass and steel slabs rising from bomb sites. To provide modern working conditions for the hive of half a million commuters who streamed daily into 'the square mile', the only solution was to build high.

But in the process, all physical traces of the City's history would be obliterated – turned up by bulldozers, perhaps photographed, and a few relics transferred to the Guildhall Museum. Whatever the problems of

preserving physical relics, however, the City had one intangible reminder of its history; that was its indestructible Corporation, which had been described as 'an obstinate relic of medieval structure sticking out like a rock in the sea' – the sea possibly being the L.C.C. (laughter.)

Miss J. Parry, Chairman of the Society, who proposed the toast of "The Institute of Chartered Accountants in England and Wales", said that the Society had extended its activities since last year. They had succeeded in forming a small group in the North East to attempt to combat the difficulty of members having to travel to London.

Miss Parry said there had been no let-up this year ingthe work of the Institute on behalf of the profession. They had three very important matters in hand – the report of the Jenkins Committee on company law, the Parker Report on the training of entrants to the profession, and the investigation into the affairs of the small practitioners.

She knew very well the meticulous care which the Council was giving to the Jenkins Report in an effort to see that no provisions became law that would be detrimental to the country, the public, or in any way to the work that accountants had to do. The training of entrants and the small practitioners' review were matters which were closely linked, because it had been established that by far greater number of articled clerks were trained in the offices of small practitioners.

#### **Tribute to Women Members**

Mr R. P. Winter, C.B.E., M.C., T.D., D.L., F.C.A., Vice-President of the Institute, deputizing at short notice for the President, who was unable to attend, paid tribute to the women members of the Institute. He said that of the 388 on the register, eighty were in practice, sixty-four were in practising accountants' offices, and forty were in industry. 'The rest', he added, laughingly, 'we do not know what they are doing, but presumably they are well employed.'

Referring to the recent retirement of Mr Alan MacIver from the secretaryship of the Institute, Mr Winter said that when Mr MacIver joined the staff in 1935, there were only seventeen people at Moorgate Place; now there were 120. Membership then totalled 10,000, now it was 36,000. There had been a whole change in the outlook of the Institute since the war.

But they had now reached the stage where they had to take stock of where they were going. They had expanded enormously since the war but had had little opportunity to review their problems and make sure their ship was well founded. Their activities had extended far beyond mere auditing and taxation, and embraced more and more the giving of financial guidance, and advice on management problems, costing and all other modern industrial requirements. They had got to keep up to date with these requirements.

The toast of 'The Guests' was proposed by Miss S. J. Clark, A.C.A., a member of the Committee of the Society. Miss E. C. Bather, O.B.E., ex-Chief Superintendent of the Metropolitan (Women) Police, responded.

#### LONDON CHARTERED ACCOUNTANT STUDENTS' DINNER

A total of 1,480 members and guests attended the fortyninth annual dinner of The Chartered Accountant Students' Society of London held at Grosvenor House, London, last Monday. Mr W. E. Parker, C.B.E., F.C.A., President of the Society, was in the chair.

Among those present were Mr Percy F. Carpenter, F.C.A., President of The Institute of Chartered Accountants in England and Wales; Mrs Olive G. Deer, J.P., the Rt Hon. the Chairman, London County Council; the Rt Hon. Baron Godber of Mayfield, Chairman, Commonwealth Development Finance Co Ltd; Sir Milner Holland, Q.C., Chairman, General Council of the Bar; Sir Alexander Johnston, K.B.E., C.B., Chairman, Board of Inland Revenue; Mr H. B. Lawson, M.C., M.A., LL.B., President, The Law Society; Mr A. D. Marris, c.m.g., Chairman, Issuing Houses Association; Mr P. W. Milligan, Chairman of Lloyds; Lord Ritchie of Dundee, Chairman of the Council of the Stock Exchange; and Mr E. K. Stewart-Smith, M.B.E., Chamberlain of London.

#### Development of the Profession

The toast of 'The Students' Society' was proposed by Baron Godber of Mayfield, who said in the course of his remarks:

'Looking back to the days when I first entered the City, something short of sixty years ago, I could not avoid comparing the public's appreciation of accountancy then with the public's appreciation today. My chief, then, had no use for accountants. He called them "book-keepers" – and as far as he was concerned book-keepers they were going to remain. And he was not the only one in those days that had that same feeling as regards accountants. They wanted to do things which were a bit of a nuisance, and to do things more correctly than did the great tycoons of the early nineteenhundreds. But changes have come, and they have undoubtedly been all to the good.

'As a result of the slackness of those early days there were many crises and many serious losses resulting from a neglect to give the accountants far wider scope. And other countries - for our's was not the only country - were just as backward in recognizing their value. Few of them provided by law for the auditing of accounts, and our own company law was

altogether different from what it is today.

'But company law has been tightened, and over the years the need and demand for accountants has increased at an amazing pace. Who can say, nowadays, that there is any avenue which is not open to the qualified accountant? Higher management, administration, public accounts and the public service, all of these the accountant has access to.

'Why is the profession of accountancy sought after these days and why are there such wide possibilities of advancement in the profession? It is because of the integrity of the accountant, his wide experience, not only in accountancy but in secretarial affairs, law, administration and so on, and, above all, because the accountant is needed. But what will be the future requirements of the accountant? Added to his qualifications he already has, will be a need for further qualifications. Automation has arrived, and with it nuclear development, and computers of one kind and another which are becoming more and more advanced. One cannot even guess at the problems which can arise from these developments alone. The layman can pass the expenditure -I have, myself, passed a great deal of expenditure - while knowing very little about the mechanics. The accountant

of the future will need to know the broad mechanics of these new discoveries and, what is more, their value in practice.

'Just a brief word to the articled clerks direct, if I may. No prize has ever been worth while without hard work, study and concentration on the job in hand. There is no short cut to progress. That is a thing which I, with my career behind me, strongly urge you to bear in mind as you study and prepare for examinations. What is abundantly clear is that your profession, for upwards of the last sixty years, has created for itself an honourable and trusted place in the structure of the nation. It has, however, also accepted great responsibilities, and in rightly taking pride in its achievements it has also to remember this other aspect.' (Applause.)

#### Tribute to Sir Harold Barton

Mr Clarence L. Llewellyn-Smith, Chairman of the Committee of the Students' Society, responding, paid tribute to the memory of Sir Harold Barton who died a few months ago. He was a member of the Institute for a considerable number of years and a Vice-President of the Students' Society who spent much time and energy in joining in its activities.

'Some of you are probably aware', he went on, 'of the new Weights and Measures Bill before Parliament. One of the things I believe is to revert to the metric system. The new definitions in that Bill, I think you will have found out, provide for a slight change in the weights and measures whereby the yard is to be a fraction longer and the pound a fraction lighter. But rumour - and it is no more than rumour - has it that this Bill has had an impact on the Examinations Committee. They have been thinking about this and we may get a pronouncement from the Institute regarding examinations, whereby in the future the time limit may be a fraction longer and the questions a fraction shorter. (Laughter.)

'An event which you must have read about, was the gathering of the International Congress of Accounting in the United States. We in London are particularly proud of the fact that our President attended this meeting, not merely as an observer, but he took an active part and delivered a paper at a technical session. We are proud of this, and I mention it to give you some idea of the work of our President. With all his commitments - now international commitments - he still finds time to attend our functions and our meetings. This, I think, we all appreciate very

much indeed.' (Applause.)

The toast to the visitors was proposed by the President of the Society, Mr W. E. Parker, who said:

'The Secretary has given me an account of our parade state this evening, and I am pleased to tell you – although I imagine that it will be no surprise to you - that there are no less than 1,480 of us here tonight. When a multitude of that size drinks your health it is quite some tonic (laughter), and I am grateful to Mr Llewellyn-Smith for prescribing it, and to all of you for administering it. I am also grateful for the privilege of presiding for my fifth successive year over our annual dinner, and for the opportunity which this gives me once again, on your behalf, as well as on my own, to express before this large gathering our thanks to your Committee, this year under Mr Lewellyn-Smith's chairmanship, for the tremendous amount of hard work which it does for us. Members of the Society, be sure of this - membership of your Committee is no sinecure, nor are the posts of the permanent officials, and I would like to pay your tribute, and

mine, to the devoted work of Mr Carter and his staff, not least in the organization of this considerable dinner party in which Miss Bacon has borne the great brunt of the hard work.' (Applause.)

#### Things not Always What They Seem

"This year, the text of my "sermon" to student members is "Things are not always what they seem". I cannot think of a better text for those of us who earn a living, or try to earn a living, or hope to earn a living (laughter), by examining other people's accounts and prospectuses. I think I can best get my message home by reminding you of a member of the Society who, while driving a racy car, was followed by the police. They were very surprised because he drove with the greatest skill and with every consideration. He took no risks, kept his correct position on the road, and gave the right signals, and so on and so forth. It was not far short of an immaculate performance - so much so that the police had to stop him and congratulate him. The young man who had, of course, looked in the driving mirror and given the correct signal before pulling into the kerb, thereupon told them "I will give you a word of advice. You cannot drive too carefully when you are as tight as I am". (Laughter.)

'To all our guests, I would like to express our pride in their attendance and our real and humble gratitude to them for gracing this function. Lest, from this, there should be any risk of any of them getting a swollen head, I must add that we lure our guests here with a double motive. We want our own members to have the opportunity of seeing the leaders of a wide cross-section of the great institutions, undertakings, professions which touch the life of the City of London. We also may hope that it will be good for the future business of our members that they should see us.' (Applause.)

#### City Chamberlain's Response

Responding to the toast, Mr Stewart-Smith said:
'In the course of my work I frequently have occasion to consider reports and accounts and I have found from experience that far and away the best policy is to sit quiet and let

accountants do all the talking. You may well wonder, then, why tonight I have abandoned this counsel of wisdom. The reason is that your President has rendered such great and signal service to a number of enterprises with which I am connected, that the very least I could do was to accept with great pleasure the honour he did me in inviting me to speak to you.

to you.

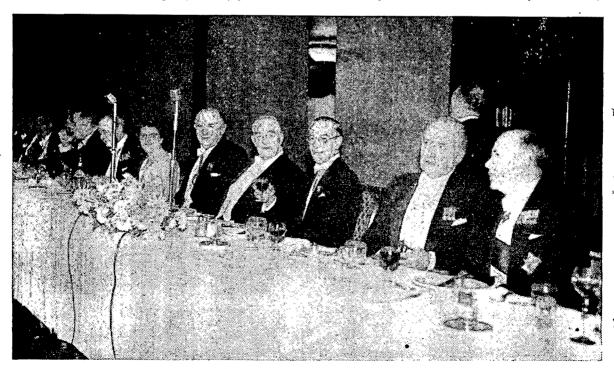
'I would like to congratulate you most warmly on choosing the profession of accountancy and thereby ensuring that you will be overworked for the rest of your lives. (Laughter.)

'I have spent some thirty years of my life in the service of one of the "Big Five" clearing banks and frequently, on discussing advances, I used to request or even demand—according to the state of the balance and state of the emergency—the most recent financial statement of my customers, and my customers, like a well-trained chorus, always replied "The books are with the auditors" and, in my imagination, they sort of added, sotto voce, "That's fixed it".

But very frequently that did not work because I knew the firm of accountants who were the auditors, and the customers could hardly refuse permission to let me make contact with them direct. It would then transpire that the auditors had, in fact, some time ago, put some vital and important questions which had remained unanswered by the customers, sometimes for weeks and sometimes for months. This was a well-known and popular method of thwarting, for a limited time and for a limited degree – and I emphasize these qualifications – both the banker and tax gatherer; but it did mean a great deal of work and, in my opinion, unnecessary work, for the accountant. That is one of the main reasons why I said to you at the beginning that you were likely to suffer all your lives from a chronic overdose of work.' (Laughter and applause.)

Proposing the toast of 'The Institute of Chartered Accountants in England and Wales', Mr H. B. Lawson said:

'Tonight I feel that I am amongst friends, not merely because of my brother's connections with your Institute,



THE PRINCIPAL GUESTS, from right to left: Sir Alexander Johnston, K.B.E., C.B.; Lord Ritchie of Dundee; Mr W. E. Parker, C.B.E., F.C.A. (in the chair); Baron Godber of Mayfield; Mr Percy F. Carpenter, F.C.A.; Mrs Olive G. Deer, J.P.; Sir Harold Gillett, Bt, M.C., F.C.A..; Sir Milner Holland, Q.C.

but because throughout my working life I have received the most generous help from so many members of your Institute. Its services are required by, amongst others, banks, and I, too, have spent a large portion of my working life in the service of a bank; and I would suggest that bankers, chartered accountants and solicitors have at least one thing in common. The customers of bankers and the clients of accountants and solicitors might possibly be said to comprise an odd assortment of bodies and individuals. For instance, I remember, years ago, a society whose overdraft regularly outran its deposits, but it was not until the liquidation and demise of that society that the bank was shattered to discover that the society's motto was "God helps those who help themselves". (Laughter.)

'Î don't think anyone would deny the greatness of gifts of common law, certain aspects of our legal system and standards of justice and integrity that our country has brought to the nations of the Commonwealth and to others. In similar fashion I believe that your Institute enjoys a reputation and status that is the envy of all accountancy bodies the world over. In one of the brochures of the Institute it states that your members have acquired a unique reputation throughout the world. None of us, I think, would be disposed to disagree with that assertion and

proud claim.

#### The Society's Early Days

Mr P. F. Carpenter, the President of the Institute, responding, said:

'It was exactly thirty-eight years ago tonight, on December 10th, 1924, that your Society held its twentieth annual dinner. There were some four hundred and forty present, and those members and their guests heard a very witty and erudite speech by a tall, slim, fair-haired young man who was then chairman of your committee. In the course of that speech he said the important position which is occupied by

chartered accountants as a body in the commercial world makes it imperative that only those who have undergone a thorough course of training and are properly qualified, should be admitted to membership of the Institute. I might add that when I spoke those words I had just passed my Final examination. (Laughter.)

#### First President Elected in 1883

'I must say I was a little puzzled to find that in 1924 the Society was only celebrating its twentieth annual dinner, and so I made some researches into the history of the Society, knowing as I did that it had been founded fairly soon after the grant of the Royal Charter to the Institute. It was, in fact, in 1883 that the Society was founded, and I found that on March 2nd, 1883, an informal meeting was held, at which it was decided that it would be a good thing to form a students' society. The forty-eight members present signified their intention of joining and on March 21st – just nineteen days afterwards – another meeting was held at which rules were approved, a president and committee elected, and auditors appointed.

'I then found that following this inaugural meeting there

a name well known in our profession. Mr F. W. Pixley spoke to them but not, as one might have thought, on bankruptcy and liquidation which, we are all told, was the only thing accountants did in the 1880s, but gave them a

lecture on auditing.

'Our students should always remember that they have chosen to take up a profession. I am not proposing to give you the definition of a profession, but one thing is quite certain – a member of a profession assumes an additional loyalty to those which we all have – those we have to our family, our school, our church, our town, and our country. And it is only with the whole-hearted support of members that a profession can flourish.' (Applause.)

### UNION OF CHARTERED ACCOUNTANT STUDENTS' SOCIETIES

#### ANNUAL CONFERENCE AT SEABURN

Fifty-five delegates from twenty-seven of the twentynine students' societies of The Institute of Chartered Accountants in England and Wales met last Friday and Saturday at Seaburn, near Newcastle upon Tyne, for their annual conference under the chairmanship of Mr Sidney H. Reilly, A.C.A., of Newcastle.

The first business was to welcome the Exeter Students' Society on joining the Union. The total number of articled clerks represented by the conference

exceeded fifteen thousand.

The conference opened with prayers by Canon Lathaen, Vicar of Seaburn, and a welcome by Mr A. Whittaker, F.C.A., the President of the Northern Students' Society, and then began the first of two sessions of discussion on a very full agenda.

#### Liaison Committee with the Council

The Statement issued by the Council of the Institute after the meeting with the Liaison Committee appointed by the last conference, had been circulated to all committee members of students' societies and was received by the conference. It stated the Council's position on the advisability of transfer of articles and on the rights of redress available to articled clerks who felt

that they were not receiving the experience required under their articles. The Council also gave their views on the refusal or opposition of some principals to allowing leave to attend students' society meetings. They promised to issue a students' handbook to articled clerks and stated unequivocally that there would be no relaxation of the standard of the examinations through any introduction of choice of questions.

#### Full-time Education and Technical Schools

After some confusion between arguments for using technical schools for introductory courses only and those for extended full-time scholastic teaching of theory, and in face of several warnings against the inevitable depreciation of the essential practical element of training for the Institute if merely academic interests were allowed to dominate the training, the conference passed motions calling for more full-time education and the representation of articled clerks on a committee to assist the Council of the Institute to extend the use of technical schools. Speakers in favour of the motions hoped that they would lead to easier study conditions, greater attraction to school leavers, six-month sandwich

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#### ACCOUNTANT

courses, wider general education, and 'adequate theoretical training' which could be gained cheaply because local rates would meet the cost.

#### **Short Residential Courses**

The conference passed a motion affirming the importance of short residential courses as a means not only of providing better lectures but also of encouraging contact between articled clerks and the consequent stimulation of the feeling of professional responsibility. The need to bring the professional benefits of such courses home to principals was emphasized.

#### **Articled Clerks' Conditions**

The conference refused to endorse proposals to circulate a questionnaire to articled clerks and to press for a specified minimum scale of remuneration. It also

rejected a suggestion that the Council be urged to give more general approval to the transfer of articles to secure better experience.

#### Students' Societies

A number of problems facing students' societies were discussed and suggestions exchanged. They included such matters as liaison between societies; contact between articled clerks; lecturers' fees and expenses; methods of wider professional education and the difficulties of securing secretarial services; and support for dinner-dances in some societies. A motion that political subjects be excluded from students' societies' reports and newsletters did not receive approval, though it showed strong views on the point at which freedom of opinion merged into abuse of circulations for the purposes of propaganda.

#### Notes and Notices

#### PROFESSIONAL NOTICES

MESSRS HARMOOD-BANNER, CASH, STONE & MOUNSEY, Chartered Accountants, announce that as from December 17th, 1962, their London practice, except for the Registration Department, will be carried on from 24 Ludgate Hill, London EC4, telephone City 9141. The Registration Department will continue at Dashwood House, 69 Old Broad Street, London EC2. The office at 48 Copthall Avenue, London EC2, will be closed.

Messrs Kingsford, Garlant & Co, Chartered Accountants, announce a change of address from 35 Earl Street to 69 Bank Street, Maidstone.

Messrs James Milne & Co, Chartered Accountants, of 5 Bon Accord Square, Aberdeen, announce the retirement on November 30th, 1962, of Mr Harry C. Reid, Ll.B., C.A.

MESSRS SAKER & DAVIS, Chartered Accountants, announce that on December 17th they are moving from Dashwood House, 69 Old Broad Street, London EC2, to 24 Ludgate Hill, London EC4, telephone City 9141.

Messrs T. G. "Shuttleworth & Son, Hadfield, Riddell & Co, Chartered Accountants, of 32 Wilkinson Street, Sheffield 10, announce that Mr J. W. Merryweather, M.C., T.D., F.C.A., senior partner, retired on October 31st, 1962. The remaining partners will continue the practice under the same names.

Messrs Stanley Marsh & Co, Chartered Accountants, of Masonic Buildings, Hall Street, St Helens, announce that Mr F. J. Farrell, F.C.A., and Mr E. J.

SHEW, A.C.A., became partners of the firm on November 10th, last. The firm's name will remain unchanged.

Mr W. G. WALLWORK, F.C.A., announces that he has taken into partnership as from December 1st, 1962, Mr D. E. Nelson, Ll.B., A.C.A., and in future the practice will be carried on under the name of WALLWORK & NELSON, 9 Lune Street, Preston.

#### Appointments

Mr W. B. Henderson, F.C.A., has been appointed a director of Jaeger Holdings Ltd.

Mr Sam Mann, F.C.A., is to become vice-president of Bowater Corporation of North America.

Mr T. E. Mulcaster, F.A.C.C.A., F.C.W.A., has been appointed joint managing director of J. W. Singer & Sons Ltd.

#### **OBITUARY**

#### Harry Daking Sheldrake, F.C.A.

We have learned with regret of the death on November 25th, at the age of 92, of Mr H. D. Sheldrake, F.C.A., former senior partner in the firm of Luckin & Sheldrake, Chartered Accountants, of Chelmsford.

He joined the firm in 1885 serving his articles with them, and was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1899. Mr Sheldrake became a partner in his firm in 1894 and retired from active practice in 1945. He was a keen sportsman and mountaineer, playing hockey for Essex and cricket and golf for Chelmsford.

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#### THE CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

At a recent meeting of the Excutive Committee there were ten members present.

#### **Applications for Assistance**

Eight new applications for assistance were considered. In two cases a grant was made; in three cases a donation was given; in one case a loan was made as a temporary measure and in two cases no grants were awarded.

Twenty-eight applications (including ten from persons previously assisted by the Society's fund) for further assistance were considered. In twenty-one cases the grant was renewed; in three cases the grant was increased; in one case the grant was reduced owing to improved circumstances and in two cases a donation was made as a temporary measure; one case was deferred until further information had been received.

#### **Matters Reported**

Sixteen cases were reported where changes in circumstances had occurred and grants were adjusted or donations made in appropriate cases. The Hon. Secretary was pleased to report that two beneficiaries had obtained employment and no longer needed assistance. The deaths of three beneficiaries were reported one of whom was a resident in one of Crossways Trust homes.

#### **Christmas Gifts**

It was decided to send small Christmas donations to certain beneficiaries who are resident in Homes and food hampers to others.

#### Other Matters

The Hon. Secretary reported the receipt from Mr W. L. Barrows, Ll.D., F.C.A., of £41 138 3d, collected by him from members of the Institute on their return journey from the International Congress recently held in New York.

Mr C. H. S. Loveday, F.C.A., was appointed Hon. Secretary of the Association following the retirement of Mr Alan S. MacIver, C.B.E., M.C., B.A.

#### IN PARLIAMENT

#### Mortgages: Tax Relief

Mr Millan asked the Chancellor of the Exchequer by how much the yield of income tax and surtax would be increased if no relief were given to owneroccupiers for mortgage interest paid.

Mr Barber: It is estimated that if owner-occupiers paying mortgage interest during the year 1961-62 had not been able to obtain any form of tax relief for that interest the extra tax payable would have been of the order of £80 million.

Hansard, Nov. 27th, 1962. Written Answers. Col. 37.

#### **Employment Income**

Mr Millan asked the Chancellor of the Exchequer how much of the total figure of £16,245 million, shown as income from employment in 1961 in Table 16 of National Income and Expenditure 1962, is represented by wages and salaries paid, but not employer's contributions, in industry assessable to taxation on profits.

Mr BARBER: £,12,850 million.

Hansard, Nov. 27th, 1962. Written Answers. Col. 37.

#### Farm Buildings and Improvements: Allowances

Mr Prior asked the Chancellor of the Exchequer if he will state the annual cost to the Exchequer of relief granted by capital expenditure claims for farm buildings or farm improvements for the last three convenient years.

Mr DU CANN: The cost of investment and other allowances in respect of expenditure covered by section 314 of the Income Tax Act, 1952, was in 1959-60, 1960-61 and 1961-62 £3 million, £4 million and £4 million respectively.

Hansard, Nov. 30th, 1962. Written Answers. Col. 103.

#### **Annuities: Assessment of Value**

Mr Hale asked the Economic Secretary to the Treasury whether he is aware that in the case of re Longbourne's Marriage Settlement 1952, reported in All-England Law Reports, at page 933, the duty was laid on trustees to assess the value of annuities on actuarial principles based on the cost of National Debt Annuities according to the ruling price of  $2\frac{1}{2}$  per cent Consols; when the appropriate tables were last published; and where they can be obtained.

Mr DU CANN: The present tables are contained in the Savings Bank Annuities (Tables) Order, 1954 (S.I. 1954 No. 1578) and the Savings Bank Annuities (Tables) Order, 1955 (S.I. 1955 No. 419). Copies of these Orders are still available from H.M. Stationery Office. They are also included in the bound volumes of Statutory Instruments which are available in many reference libraries.

Hansard, Dec. 5th, 1962. Written Answers. Col. 207.

#### LOCAL LOANS FUND

The Treasury have announced that as from December 8th the rates of interest charged on loans advanced by the Public Works Loan Board to local authorities are as follows:

Loans for not more than five years	Per 54	cent (5%)
Loans for more than five years but not	28	(58)
more than fifteen years	5₹	(5 <del>1</del> 8)
more than thirty years Loans for more than thirty years	5 7 5 8 5 8	$\binom{6\frac{1}{8}}{\binom{6\frac{1}{8}}{1}}$

The former rates of interest are shown in brackets; they have been in force since October 20th, 1962. The rates of interest on existing loans are unaffected.

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#### LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

#### **Common Market Meeting**

Last week's fog prevented Mr J. Kraayenhof, Past President of the Nederlands Instituut van Accountants from travelling to London, and the meeting he was to have addressed on December 6th on 'The practice and profession of accountancy within the Common Market' has been postponed until Monday, February 11th, 1063.

The meeting will be held at 5.30 p.m. in the Hall of the Chartered Insurance Institute, 20 Aldermanbury, EC2, as previously arranged, and tickets issued for December 6th, should be retained and used for the February meeting.

Members who had not intended being present at last week's meeting may apply to the Secretary of the Society, Mr J. W. G. Cocke, at 2 Norfolk Street, London WC2, for tickets for the new date, enclosing 10s if requiring refreshments after the meeting.

#### DUBLIN SOCIETY OF CHARTERED ACCOUNTANTS

#### Industrial and Administrative Group

'The accountant's contribution to marketing' was the theme of an evening meeting of the Industrial and Administrative Group of The Dublin Society of Chartered Accountants held on November 28th, at Jury's Hotel, Dublin. The three speakers were Mr N. McMahon, A.C.A., Mr T. J. Woods, A.C.A., marketing manager of Sunbeam Wolsey Ltd, and Mr A. J. F. O'Reilly, general manager of Bord Bainne (Eire Milk Board).

Mr J. D. Hollwey, A.C.A., chairman of the Group, presided, and the meeting was attended by about one hundred members. Among those present were Mr R. P. J. Smyth, F.C.A., chairman of the Dublin Society, and Mr J. Mansfield, director and secretary of the Irish Management Institute.

#### BELFAST SOCIETY OF CHARTERED ACCOUNTANTS

At a recent meeting of the Belfast Society of Chartered Accountants Mr R. E. McClure, M.B.E., F.C.A., President of The Institute of Chartered Accountants in Ireland, spoke on his experiences at the Eighth International Congress of Accountants. He referred to the views of several prominent world industrialists who addressed the Congress and who expressed the opinion that accountancy was the international language of business, and the greatest possible uniformity in the content and presentation of accounts, and financial information was therefore necessary.

Mr McClure went on to say that the view was also expressed by many speakers that, while in the future a merger of smaller auditing firms would be necessary to allow for specialized departments, there would always remain a place for the competent single practitioner provided he had access to specialized services.

#### THE CERTIFIED ACCOUNTANTS' LODGE

At the installation meeting held at the Banqueting Suite, Colonial House, Mincing Lane, London EC3, on Monday, December 3rd, W. Bro. C. R. M. Davidson was installed as Master for the ensuing year by W. Bro. J. H. Hills, L.G.R.

W. Bro. Hills was invested as I.P.M. and the following officers were appointed:

W. Bro. J. E. Harris, S.W.; Bro. R. G. L. Jobson, J.W.; W. Bro. J. P. Shaw, P.P.G.ST.B. (Herts), Chaplain; W. Bro. S. C. Jones, P.P.G.D. (Middx), Treasurer; W. Bro. C. S. Setchell, Secretary; W. Bro. A. C. S. Meynell, D.C.; Bro. D. W. Page, S.D.; Bro. H. A. P. Miller, J.D.; W. Bro. E. Spencer, A.D.C.; Bro. F. A. Gommer, Organist; Bro. R. A. Bishop, I.G.; Bro. K. H. Bickmore, Steward; Bro. W. Rapson, Steward; Bro. T. H. I Johnson, Steward; Bro. A. W. Nelson, Steward; Bro. N. K. Lea, Steward; W. Bro. A. J. Courtney, L.G.R., Tyler. The address of the Secretary of the Lodge is 'Ziarat', Harthall Lane, Hemel Hempstead, Herts.

#### SEVENTY-FIVE YEARS AGO

From The Accountant of December 10th, 1887

A Weekly Note

A Blue Book, issued a few days ago, gives a summary of the annual returns and valuations of the Friendly Societies in 18 English Counties. The societies in the other divisions will no doubt be included in future issues. Of 798 societies comprised in the return before us 176 show surpluses, and 622 deficiencies; the net aggregate deficiency being nearly £400,000. These particulars indicate a serious but by no means new state of affairs. No doubt it is in the power of the societies to increase the subscriptions or make levies, but this does not take away the impression that it is impossible for them to give the full benefits which the members suppose they are secure of. The affairs of Friendly Societies are likely to occupy at no distant date the attention of Parliament, as many important matters in relation to such bodies are ripe for consideration. The periodical and independent audit of their accounts is not the least important of the questions which in all probability will be raised. As frequently mentioned in these columns it is a matter of deep importance to chartered accountants, and it seems desirable that the subject should without much delay have special attention at their hands.

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# ACCOUNTANT

ESTABLISHED 1874

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#### Greetings

To our many friends and readers at home and abroad, we extend our good wishes for a Happy Christmas and a Bright and Prosperous New Year

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#### Financing Hire-purchase

THE modest recession in the United Kingdom economy of the past two years has perceptibly slowed down the demand for consumer durable goods. Nowhere is this more evident than in the failure in the last year or two of hire-purchase finance to expand at the pace of 1959-60. Once the economic revival, which Mr Maudling is tentatively endeavouring to initiate, gets under way, there can be little doubt that hire-purchase in all its forms will once again encourage the consumer to acquire the status symbols of the mid-twentieth century.

In view of the importance of hire-purchase in the economy, it is hardly surprising that the Board of Trade should now be assembling improved statistics of hire-purchase activity and, of equal interest, the Bank of England Quarterly Bulletin for December examines the sources of the funds upon which the finance houses based their activities during 1958–62. Their central role in this field is evidenced by the statement in the Quarterly Bulletin that, although the last Census of Distribution showed that there were about one thousand five hundred concerns specializing in hire-purchase finance, the business is heavily concentrated among a few large companies. In 1962, for example, only thirteen such companies had assets of £10 million or more, and between them they accounted for two-thirds of the estimated total of assets.

The larger finance houses belong to the Finance Houses Association and about thirty medium- and smaller-sized concerns have formed the Industrial Bankers Association. The most interesting feature of these larger concerns is their capacity for financing about two-thirds of their total business on the basis of deposits; the proportion of business so financed by these larger companies increased from about 40 to 65 per cent between 1958–62. The deposits are of two kinds, fixed and 'at notice'. The smaller companies in this field are unable to attract the same volume of funds from this source, although as a result of advertising they undoubtedly attract a large number of smaller deposits, probably from private individuals.

The Quarterly Bulletin observes that the rates paid by the finance houses for deposits offer a return that 'is often attractive' to overseas residents and to United Kingdom banks holding deposits of overseas residents. Most of these funds probably go to the larger companies who, according to the available figures, hold a substantially smaller proportion of their assets in cash and balances with banks than do the smaller companies. For example, the overall cash to deposits ratio in June 1962 averaged only 4 per cent; the members of the Industrial Bankers Association are required, as a

a condition of membership, to maintain the prudent and conservative ratio of 10 per cent. Since the profitability of hire-purchase activity is directly related to the proportion of total deposits which may be tied up in loans, it is clear why in some cases Parliament considers it desirable to protect depositors. The Government's Bill should become law before the next phase in the expansion of hire-purchase business is well under way.

Total hire-purchase credit outstanding in June 1962 was nearly £900 million, which may be compared with a total of only £500 million in mid-1958 and a peak of £950 million in mid-1961. These figures clearly underline both the scope for growth and the pace at which expansion is possible. Much of this debt is owed directly to the hire-purchase companies, but about one-tenth of their assets are made up of 'block discounted' agreements bought for cash from retailers. The extent to which the fortunes of the hire-purchase companies and the motor industry are linked is underlined by the fact that about two-thirds of all debt is in connection with the purchase of private cars and commercial vehicles.

About one-sixth is in respect of household durables, e.g. washing machines, refrigerators, etc., and about the same amount is devoted to the purchase of industrial and agricultural equipment.

The total of issued capital and reserves has been estimated at £148 million in June 1962, i.e. about one-sixth of the total liabilities of the hire-purchase finance concerns. This average is a shade misleading since the ratio of total borrowing to issued capital and reserves varies quite widely and, in the case of the larger companies, it may be as high as ten to one. Here again the Industrial Bankers Association imposes a scale upon its members according to size; for larger members with over £200,000 of capital, the maximum? allowed is seven to one. Bank borrowing provides about the same volume of resources, i.e. f.152 million in June 1962. Here, again, there are wide disparities between the companies since the larger concerns - which rely more on deposits are less dependent than are their smaller counterparts on this source of working capital. By virtue of its flexibility, however, bank finance could become very important in any future expansion.

## Timekeeping and Costing in an Accountant's Office

by C. R. PRATT, A.C.A.

THE old adage 'a shoemaker's children are the worst shod' is often particularly applicable to the manner in which accountants in public practice keep their own time records. It is true that the textbooks describe systems admirably based on double entry, but they usually require a good deal of transcription from one time record to another.

#### Shortcomings of Old Systems

In the majority of systems a weekly or monthly time-sheet prepared by each clerk is used as the medium for posting to clients' time accounts (Dr), and to an account under the clerk's name (Cr). This involves the same information being written out three times and it is understandable, therefore, that the details of the work done are often described in the client's time account in only the briefest terms.

With patience, the total time spent on each job may eventually be obtained, but by then it is probably necessary in order to refresh one's memory in preparing the details of the fees bill to refer to staff diaries. Moreover, in times of pressure the work of keeping the time-books may fall sadly into arrear, and then the sheer necessity of getting in the fees reduces one to estimation, even to 'guesstimation', of the time spent on audits or other work.

The information and features required of a timekeeping system are as follows:

- (1) Client's time record. The time spent on each client, with adequate details of what was done, when it was done, and the clerk's grade; •
- (2) Work costings. Costing information of the profitability of each job, progressive totals indicating the profitability of the practice, and

the value of work in progress at any date;

- (3) Charge-out rates. Costing figures to ascertain the minimum charge-out rate for each class of clerk;
- (4) Simplicity and speed. The information to be obtained quickly and cheaply, using relatively unskilled labour.

The system now to be described has been found in practice to meet all of these requirements, and it also enables certain other useful information to be extracted.

#### **Improved System**

The principle of the system is based on double entry. Time, in quarter-hour units, is credited in total to the clerk's name, and debited in detail to clients' time accounts or 'lost time' accounts (office, holidays, or sickness). The clerk prepares a monthly (or weekly) time-sheet which is cut into strips so that the 'time used' strips are pasted on to each time account (Dr), the 'totals' strip being pasted to the clerk's name account (Cr).

It is unnecessary for time to be recorded in units of less than one quarter of an hour, as even a short letter, involving as it does typing time, should be worth one unit.

A system that uses hours and minutes is more difficult to operate than if based on a time unit, and the chance of clerical errors is increased. Any attempt to convert time into money values on the monthly (or weekly) time-sheet will inhibit the analysis of time to each grade of labour (see Figs. 1 and 2), increase the work involved, and will tend to induce inefficiency.

It is now assumed that the timekeeping system is to be installed in a practice of medium or large size. The variations suggested for small practices, having perhaps no more than five accounting members engaged principally on small fee work, are described later in the article. The changes suggested have as their purpose economy of time in maintaining the records, and, of course, the information obtainable from them is not so comprehensive as the full system. The term 'clerk' throughout also includes partners.

#### **Clerical Procedures**

(1) Clerks' Timekeeping. Each clerk is required to prepare a monthly time-sheet, which will be a summary of the information contained in his diary (see Fig. 1). The diary should be roughly summarized weekly, then monthly to give the time figures for the monthly time-sheet.

Typists should only prepare time-sheets when they are engaged on work of a special nature, as the value of their time spent on normal typing and clerical duties is best treated as an overhead to be incorporated in the charge-out rate of the accounting staff.

(2) Stripping. The monthly time-sheet goes to the time clerk for 'stripping', each strip subsequently being affixed into the time ledger under the relevant client, clerk and 'lost time' accounts (see Fig. 2).

The time ledger should be of a loose-leaf variety and, in the interests of economy, rough or used paper may be used as backing sheets.

(3) Billing. When it is noted on a time strip that the job is to be billed (see example on Fig. 1), the time spent is totalled, costed out, and the information transcribed on to the extracted copy fees bill of the previous year (see Fig. 2).

The senior clerk in charge of the job examines the copy fees bill, making such amendments to the description and fee as may be appropriate, and stating if any of the time is to be carried forward as being chargeable to the next period.

The fees bill is then typed and listed in the fees journal for debiting to the client's ledger account in the usual way.

When the copy fees bill is returned to the time-keeper, he will rule off the client's time account, note the date, and transfer the time charged to a 'time charged' account. The time charged account, besides the classified time columns, has two money columns – (i) cost (the costed value of the time transferred) and (ii) fee charged (see Fig. 3). Any 'carried forward' time will be treated as shown in Fig. 2.

- (4) Balancing the time ledger. At the end of each month or other suitable period, the accuracy of the time ledger is proven by listing the total times shown under the clerks' names (credits) and agreeing this total with that of the time shown in the clients' accounts, 'lost time' accounts, and time-charged account (debits). In the event of any difference, the entries may be checked by reference to the rough monthly summaries in the clerks' diaries.
- (5) Annual accounts. At the end of each year (or half-year, if half-yearly accounts are prepared) the total time shown for each clerk is transferred to the credit of an 'annual summary' account, and the office, holiday, sickness, and time-charged accounts will be transferred and debited. The balance on the annual summary account should then agree with the total time shown in the clients' accounts being work in progress. The value of work in progress may, of course, be computed by using the appropriate charge-out rates.

(6) Accounting control. The total of fees shown found from practical experience to include the in the time-charged account should be agreed at least half-yearly with the fees journal, so that any errors, double billing or failure to bill, will not go undetected.

#### Benefits of the System

The benefits of the system described have been

following:

(i) The total time spent, analysed as to the various clerical grades, forms an accurate basis on which to calculate the fee.

(ii) The profit or loss on each job is brought to the attention of a senior at the time the fee is assessed. Future reference to this is available by examining the time-charged account.

Figure i	MONTHLY TIME-SHE	ET					
CLIENT -	AND WORK DONE	Init.	P £	S	S/S £	T £	J €
July 1962 July 1962	Mr R. J. Williams – Commenced preparation of capital statements re tax investigation	CRP	£ 35	£ 20	<u>+</u>	£	_ 
July 1962 July 1962	internal check, audit accounts and balance sheet, report thereon	CRP CRP CRP	<del></del> 35	385 23 428	132 — 132		<u>-</u>
	Total for month 595						
Figure 2	CLIENT'S TIME ACCOU	JNT					
s. H. JOH	INSON & CO LTD	Init.	P	S	S/S	Т	,
July 1962	S. H. Johnson & Co Ltd – New audit of accounts June 30th, 1962, preparation of audit progress, audit of	,		£	£	£	£
	internal check, audit accounts and balance sheet, report thereon	CRP	· _	385	132		
July 1962	S. H. Johnson & Co Ltd – assisting CRP re audit June 30th, 1962	PJP	_				250
	cal	rried forv	vard	385 50	132		250 — ``
	August 31st, 1962, to time ch	arged acc	ount	335	132		250
	br	ought for	ward	50	_		
The previo	ous year's copy fees bill will be noted as follows:		_	•			,
	S 385 at 10s		£ s 192 10 42 18 31 5	3 0			}
	carried forward	S50 units	266 13 25 0	_			
	fee	charged	241 13	3 0			,
Figure 3	• £ s d £	charged	P	S £	S/S £	T £	,
		3 12 0	_	64 335	132		250

₹,

(iii) The cumulative effect of over- or under-billing can be found by taking the difference between the totals of the 'cost' and 'fees' columns of the time-charged account.

It will be realized that references to 'profit' or 'loss' are only on the difference between the costed value of the time spent on a client, and the fee charged. The actual profit and loss would have to take into account the margin of profit included in the charge-out rate, which profit will itself fluctuate according to the efficiency, health, etc., of each clerk.

- (iv) The cost rate in units, for a representative clerk of each class, can be calculated as follows:
  - (a) Deduct the units of lost time for the clerk from the total of his working time, as shown by his time account. The time in units thus arrived at will be the effective working time of the clerk for (say) the half-year.
  - (b) By dividing the effective working time into his wage cost, the wage value per unit is ascertained.
  - (c) Compute the value of overheads, including the wage cost of typists, and allocate a suitable proportion to the clerk. Divide the effective working time into the value of overheads to arrive at the overhead value per unit.
  - (d) By adding (b) and (c) together, the cost rate per unit is found. This should not be confused with the charge-out rate to clients. By calculating the cost rate and comparing it with the charge-out rate, the partners can ensure that each class of staff member is contributing to the profitable working of the practice. The charge-out rate will, of course, be of some convenient value and contain a suitable margin for profit.
- (v) The cost of sickness, holiday and unchargeable time (office) can be readily seen.
- (vi) A quick examination of the office account will readily show where time paid for is being lost. (If any clerk is charging an excessive amount of time to 'office', the partner may, with tact, point out that even though the time spent on a job may be getting well above the fee, it is of no help to the practice to have his time written off to 'office'.)
- (vii) The effective working time of each clerk can be extracted from the time books and by converting this into a fees value, his profitability can be roughly assessed, bearing in mind the factors of overheads and whether the jobs on which he has been employed were generally under- or over-billed.

These sorts of figures can be used as guides only, especially if there are charities and clubs which are charged at reduced fees. In any event, such figures will be of help in locating the cause of disappointing results, which is one of the major functions of any costing system.

(viii) The necessary forms can be duplicated in the office. There is no costly 'patent' system to be bought.

#### Amendments to System for the Small Practice

The following modifications are suggested to render the system outlined more practicable for the small practice. It is reiterated, however, that the simplified procedure will not produce the same amount of information.

- (1) Clerks' timekeeping. The time-sheet should be prepared weekly. As the jobs are usually small and numerous, this will not cause an undue number of strips to be stuck in under a client's name. The times are obtained more quickly, which will facilitate the speed with which fees are collected, thus assisting in the difficult matter of financing work in progress.
- (2) Stripping. The procedure already described should be followed.
- (3) Billing. It will often be convenient to have the clerk responsible for the job, himself calculate the fee and dictate a suitable fees bill at the same time, obviating the additional duty of extracting and refiling the copy fees bill of the previous year. The costed value of the time can conveniently be entered alongside the times written off in the client's time account, together with a note of the fee charged and the date. However, as there is no transfer of time etc. to a time-charged account, it will be seen that the time ledger cannot be made to balance.
- (4) Balancing. No balancing is effected, but the clerks' and 'lost time' accounts should be totalled (say) each half-year for reference purposes.
- (5) Annual accounts. There will be no annual summary account. If it is required to know the value of work in progress at any date, a simple extract can be made of the times shown in the clients' time accounts.
- (6) Accounting control. The fees journal should be ticked up to the time ledger at least quarterly, to make certain that there has been no failure to bill a client, or that the time on a client's time account was not written off at the time the fees bill was prepared.

#### The Coal Board Story — II

INTEGRATED E.D.P.
IN A NATIONALIZED INDUSTRY

by DUDLEY W. HOOPER, M.A., F.C.A. Chief Organizing Accountant, National Coal Board

#### **Main Applications**

HE outline of the work of wages accounting has already been described; additionally, weekly and monthly salaries, superannuation, pension and compensation payments will be processed.

The sales accounting field covers the following main requirements:

- (a) recording dispatches of coal and coke (e.g. by marking tonnages on cards pre-punched for known regular combinations of customer/ consignee/destination/dispatching point and quantity, or by manual punching occasional combinations);
- (b) using these records of dispatches, suitably coded, to retrieve from the computer the full details of each relative contract with a customer, pricing each dispatch, analysing the value into component parts (e.g. transport, service charges), and establishing the pit-head price, so that full statistics can be prepared, both by tonnage and by value, covering the various types and qualities of coal dispatched to various classes of consumer, special industries, sales region and zone, etc.;
- (c) during these operations, the computer will have built up a series of invoice lines which can be printed out at the month end or intermediately.

The concept is thus of building up a dispatch item file with necessary analytical information applied to each item so that, independently of the calendar, weekly and accounting period information can be produced for management, from the same source within the computer system as the invoice for the customer.

Materials and suppliers' accounting procedures are based on an assumption that a good storekeeper will always retain some form of stores record in his storehouse, even if unofficial or memorandum. This record is recognized as the cheapest and quickest method of answering an *ad hoc* inquiry from the storehouse on a particular item, and is also used by the storekeeper for noting earmarks and allocations, special purchases (e.g. for capital projects), undelivered orders, etc.

The E.D.P. system is not, therefore, designed to offer random access to the details of any item in any storehouse, but it will operate initially as follows:

This is the second and concluding part of a paper based on the author's presidential address to the British Computer Society last May and since brought up to date. The opinions expressed are the author's and not necessarily those of the National Coal Board or The British Computer Society.

- (a) all movements are recorded as input, storing within the computer standard prices, cumulative consumption and current balances of each item;
- (b) the storekeeper, after issue or receipt of an item, records the new balance on the issue or receipt note so that the computer, by comparison with the computer balance, can eliminate arithmetic? errors by the storekeeper, so that stock checking within the storehouse should reveal only factual errors and not arithmetic ones;
- (c) the computer system evaluates the stock balances as required for accounting records of stock control by value, in total of main and subclassification groups;
- (d) consumption details, with current balances, provide such provisioning information as may be required by the purchasing department;
- (e) certified invoices are recorded as input, and marked off against goods received notes, the supplier's account being built up, with automatic preparation of the statement and cheque at month end (suppliers in this context including services).

In the general accounting field, the outputs of the three previous main systems will include what are conventionally posting summaries to the main accounts. By adding such items as provisions and depreciation, the whole of the Board's financial and cost ledgers can be prepared automatically, with later development to capital expenditure records, comparison of actual against budgeted non-operational expenditure, and other financial and statistical work.

Throughout these applications there will be much information being made available which currently can only be obtained by ad hoc surveys. The aim is to provide within a computer centre such information as will enable management (not necessarily in retrospect) to obtain a new presentation of information from the existing data being processed without radical alteration to the system.

The total volume of transactions to be processed is very large. Some indication of the main work loads is given in Figure 5.

#### Some Important Principles

From the work which has been done over the past twelve years a number of principles have been established and conclusions drawn. The following notes cover some of the more important:

	NATIONAL COAL BOARD Work Loads (approximate) Main Loads to be processed by 7 Divisional Centres	Computer
٧	WAGES ACCOUNTING Number of Piece-workers' Contracts (weekly)	82,000
	Industrial)	612,000
	pensation Number of Wages Paying Points Number of Input 'Transaction/Lines'	188,000 950
	(per month)	9,600,000 15,000,000
Ť	MATERIALS and SUPPLIERS' ACCOUNTING Number of Storeholding Points Number of Vocabulary Items Weekly Stores Movements Number of Suppliers' Accounts Monthly Invoices Received	1,000 300,000 430,000 65,000 250,000
	Monthly Remittances Dispatched Number of Input 'Transaction/Lines' (per month)	40,000 2,200,000 100,000
	SALES ACCOUNTING Number of Dispatch Points Range of Qualities of Coal Daily Dispatches Range of Destinations (Consignees) Number of Wholesale Customers Number of Direct ('Retail') Customers Monthly Wholesale Invoices Number of Input 'Transaction/Lines' (per month) Number of Output Lines (per month)	1,250 1,500 25,000 200,000 30,000 350,000 33;000 1,000,000 900,000
	Total Input 'Transaction/Lines' (per month) (say)	13,000,000

Figure 5. Major Work Loads.

- (a) In designing these systems, the first need is to establish the output requirements. Then, the input required to produce that output can be defined, and a decision made as to the form in which it should be prepared most rapidly, most economically and, above all, accurately. The system must start not later than the initial record of a transaction under existing methods (e.g. time-sheet, advice note, or issue note), and this inevitably involves, at present, some manual operation; other means of data capture are needed, and some are under investigation.
- (b) Input must be available in sufficient time to meet the needs of output, having regard to transmission and processing times. This necessitates proper matching of the computer itself to the supporting ancillary off-line equipment, data preparation equipment and organization, control systems, and so on. The computer centre as a whole must operate as one production line.
- (c) We therefore look on the computer itself as one item only of the equipment required in a complete data-processing system; no one item• not

- excepting the computer, can operate independently of another in relation to the system as a whole.
- (d) The problem of allocating work to machines within a predetermined work flow and time cycle can only be solved by proper factory production line techniques. Further, since the management and administrative cycle of an industry such as ours must not be affected by the introduction of machines, the system (or its planned emergency alternative) must never fail to operate, and must retain some flexibility.
- (e) A divisional computer centre is not, therefore, a computer 'centre' in the accepted commercial sense, since it does not operate on an ad hoc or 'open shop' basis; it is organized as a factory; it is designed functionally, in a building planned for the purpose. It is not an 'electronic office'.
- (f) Within this concept, it is as important to regulate and control the flow of data into a computer centre as it is to control and inspect raw material arriving at a factory. The standard of inspection, and of the organization of the input data, must be very high, so that no computer time is wasted processing incorrect or imperfect input.
- (g) Unfortunately, however perfect the input, however good the control and the inspection of data, the computer system is nullified if humans interfere with the rules. It is extremely difficult to translate into computer terms the human mind, particularly of a wages clerk who has been a mental computer for the past thirty years or so, acquainted with every possible circumstance that might arise exceptionally, and always ready with some long stored knowledge of similar examples in the past. The system of input control and subsequent processing, once established, must be maintained precisely, and we therefore insist on a very high standard of independent control from the point at which the initial record is made; these original controls on input are themselves built up into subsequent controls against which each subsequent machine operation or computer run can be checked.
- (h) The first computer run in any major field of work, therefore, should consist primarily of translating the input from cards into magnetic tape form, at the same time editing this data and controlling it against the independent controls built up from the source input. Similar principles apply to amendments of standing data; a file tape should be controlled and proved independently of the use of that amended tape in processing runs. Unless clean data is used in actual processing there is not only the waste of computer time but also far too high a cost in error tracing.
- (i) This raises the cost of accuracy. In a wide area of engineering, mathematical and scientific computation, a measure of inaccuracy is permissible within defined tolerances. In the commercial data-processing field, output for third parties (the eventual purpose of every major application) can only be right or wrong; one cannot approximate, for example, a pay slip or an invoice.

The right balance has therefore to be sought

between, firstly, rigid adherence to a complex system, with a maximum number of both independent and in-built controls to obtain perfect accuracy; secondly, the production time limits imposed by the needs of output and availability of input; thirdly, the extent to which error can be accepted, if at all; and fourthly, the costs involved in varying combinations of these considerations.

Every system in the field of commercial data processing is therefore a compromise, and there will be a number of alternative solutions which will achieve the same result. Investigating the possible combinations of operations within an overall system to obtain the best compromise is, in practice, the most time-consuming part of detailed installation planning. It is essential not to take too long over this, but to make decisions in the light of circumstances pertaining at the time, and then to abide by these so as not to delay implementation of the system as a whole.

#### Functional Organization of a Divisional Computer Centre

The organization of the Board's divisional computer centres is essentially functional, with clear distinction between operation and control. The staffing organization is shown in Figure 6. All computer centre staff is being, and has been, obtained from within the industry. Selection is by a combination of aptitude test, interview, and past experience. As an example,

from, say, three hundred applications for systems analysts and programmers, one might expect to get twenty or thirty potential people, of whom about ten to twelve turn out to be acceptable, some often surprisingly good at developing new skills.

Buildings similarly are functional. Where possible they are being adapted; elsewhere they are being specially built. Equipment is normally on rental, with maintenance contracts with the suppliers, the computer manufacturer being considered the prime contractor responsible for the system as a whole; we cannot afford disputes between makers of different machines within the same overall E.D.P. system. Discussions are being held with the manufacturers to evolve some measure of standardization in maintenance and operating conditions. Reliability statistics are maintained on a standard basis, and are exchanged with other nationalized industries.

#### **Expected Savings**

It is never possible to forecast the ultimate financial benefits to an organization of an integrated E.D.P. system of this nature. It is, however, essential that the system, within the limited basis on which it has been planned for the first phase, should be economic and that each installation should stand on its own feet. Experience of the three pilot installations has enabled us to make precise estimates of the staffs which would be required under the best available conventional

#### FUNCTIONAL ORGANIZATION OF A DIVISIONAL E.D.P. CENTRE

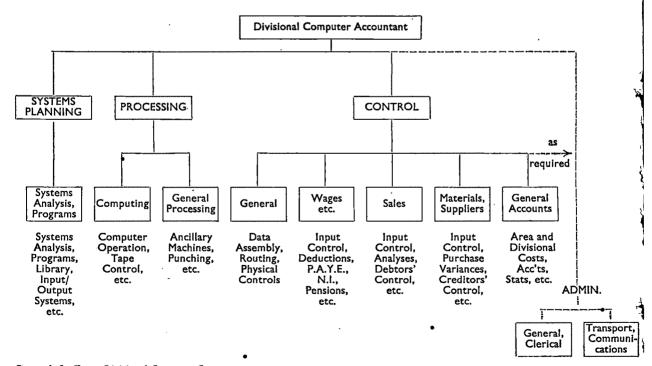


Figure 6. Staffing a Divisional Computer Centre.

systems, and to compare these with those which will be needed both to operate our computer centres and for work outside them (e.g. in preparing and creating

input).

The Board has placed the responsibility for implementing E.D.P. on Finance Department, as for these initial procedures it is this department which will be the main customer, and which has gained the experience on the pilot installations. On nationalization of the industry in 1947 the Finance Department staff numbered about eleven thousand five hundred. During the next five years there was a steady increase in the demands for information; uniform returns for costing and statistical requirements were required for the industry as a whole; the records and procedures of some six hundred colliery companies, some large but most small, some with good systems but many with Tlittle more than manual book-keeping methods, were taken over; the Mineworkers Pension Scheme was introduced; standard cost techniques began to be developed. By 1957 the Finance Department staff had risen to nearly thirteen thousand five hundred.

In the early 1950s the Board had started to apply, on a wide scale, what we would now term conventional accounting machines and punched-card techniques to the normal data-processing routines such as payrolls, sales invoicing and stores accounting. Systems were rationalized, processing centralized as far as practicable (e.g. payrolls for collieries were handled in group or area offices; sales invoicing became a divisional function). These steps had resulted in a reduction of staff to less than eleven thousand at the end of 1961, and any further reductions which could be obtained by conventional methods would be very marginal. By the development of computer centres, however, we propose to reduce the Finance Department's staff from this current figure to about seven thousand, seven hundred by about 1968, a saving of about three thousand. This saving should be covered by normal wastage, and no significant redundancy is expected.

Without taking into account the trend in increasing costs of staff, not only in salaries but in overheads, this saving significantly outweighs the additional costs of the machines, on a rental basis, and of the amortization of the costs of the new buildings. One major objective will then be achieved, that of producing information more economically, and in better form that it has previously been possible to do.

Staff savings are not, of course, the sole objective in introducing E.D.P., but these will enable computer centres to be established economically, so as to be ready to move forward to the next phase. The basic data which we will have compiled for integrated information processing will then be available to us for use in operational applications of computing, management and operational control, forecasting, and so on.

In which precise direction this further application of E.D.P. will develop cannot at this moment in time be stated. There are still many problems to be over-

come. The traditional ways of management, departmental boundaries, audit techniques, communications, and development of equipment standards, are only a few of the items on which a great deal of preliminary work has been done, but final conclusions have not been, and will not be, reached until the systems are operational in their planned areas of first phase work.

#### Conclusion

The whole task of implementing the Board's policy is an enormous one, with very heavy responsibilities on those charged with this duty. This work over the past twelve years has been, and continues to be, essentially a team effort; started initially at head-quarters, then supported by small teams in divisions, there are now (October 1962) some three hundred people in the industry employed solely on various aspects of development of computer application.

In round figures, the work involved up to the point at which programming for the complete integrated operation for the industry started may be estimated as having taken about 140 man-years. Of this, about ten man-years were occupied in devising basic concepts, fifty on wages planning, twenty on the feasibility study of the integrated concept, and a further sixty on evolving the detailed proposals for each division. Computer manufacturers have played a large part in the planning, and have in effect been sitting down in partnership with the Board's teams, evolving together, system specifications which matched our requirements to their particular machines. Throughout the industry, and particularly among those associated with this E.D.P. development, there is tremendous enthusiasm.

Acknowledgement must be made of the Board's act of faith in making their policy decision in 1960, on the evidence presented to them, affecting the whole industry, of the encouragement by successive Directors-General of Finance for continuous development of what had started some ten years before as apparently rather nebulous ideas, and of the work of the E.D.P. teams at headquarters and in divisions in pursuing these ideas, proving them practicable and, above all, making them work. This great effort is looked on as an essential part of the task of making the industry efficient, in every sense.

As our chairman has said: 'Just as we have to introduce the maximum degree of mechanization into coal production, so we continually seek to improve administration, to give management better information, more quickly and more cheaply. The two aspects of mechanization, in the pits and in the offices, must go together. Basically, the concept of digging for information, bringing the vital facts to the surface, processing them and serving them to management, has much in common with the process of extracting coal and delivering it to the customer. In either case the finished product must be obtained as economically as possible and must be in the form in which the customer can use it efficiently.'

7

#### A City Romance

#### by J. E. HINDER

(Broadcast in 'Monday Night at Home' in the B.B.C. Light Programme on May 21st last)

Professor C. Northcote Parkinson has declared that business firms have sexual characteristics. Feminine firms indulge in excessive cleanliness; are over-conscientious in their financial methods. Male and female firms frequently marry – some, indeed, indulge in pre-marital relationships, says the Professor. . . .

#### Dear Associated Scrap Conversion,

You may be surprised to receive this communication from an organization unconnected with your section of industry but, after all, we have been close neighbours since you took over from the old Nash Terrace, and it occurs to me that though our commercial interests may be poles apart, we could still be friends.

If in agreement, please flash your neon-sign twice around 6 p.m. tomorrow.

Yours sincerely,

Mountararat Property Trust.

#### Dear Mountararat Property Trust,

Pleased to receive yours of the 10th inst., contents of which have been duly noted and your suggestion re neon-sign duly carried out. Though, as you say, our business interests in no way coincide, I have personally always admired your façade and the good taste of the floral decorations round the Epstein.

Perhaps I might make so bold as to suggest that we see more of each other. Would you consider leaving windows open and all lights on after 8 p.m., on the 15th?

Yours,

Associated Scrap Conversion.

#### Dear Associated,

So pleased to hear you liked my décor. I do try to achieve a certain amount of chic – a natural feminine weakness that in no way detracts from commercial efficiency, as my balance sheet shows.

Don't think, by the way, that I am unaffected by your particular brand of masculine charm. Neo-Georgian has always attracted me. Just a point: those greenish stains on your Portland stone do look a little bit untidy. I'm not trying to change you – please don't think that – it's just a thought.

Yours,

Mountararat.

#### My Dear Associated,

You really shouldn't have gone to all that trouble. I was amazed to see such a snowy-white façade. And the clock gilded, too! Surely you didn't do it all for little me? Confess now – you were expecting important clients, weren't you?

Yours ever,

Mountararat.

#### Mountararat dear,

Only two days to go before the special meeting which will decide whether we continue to plough lonely furrows, or tread hand-in-hand the rose-fringed path of high profits, increased dividends and bonus issues – together at last!

I am too nervous to write more but, believe me, you are never absent from my thoughts.

Your own,

Scrappy.

Dearest Scrappy,

So we are to be one next month! No wonder my quotation rose on the Stock Exchange when the news arrived! How could I help it! Just imagine – one balance sheet, one board of directors – it seems too good to be true.

And as for the future, who knows, perhaps in the years to come we may have . . . a . . . little subsidiary?

With all my love,
Your own,
Mountararat

#### Caesar at Christmas?

#### by a member of the Accountants' Christian Fellowship

THERE was once a perverse genius who ordained that the demands of the Inland Revenue should issue forth in two main streams – the greater at Christmas and the lesser at Easter. Such, at least, is the folklore of the accountancy profession; there is probably no truth in the embellishment which makes that genius the son of a high church dignitary.

Be that as it may, the accountant is pointedly reminded at this time of the year of the demands both of his own kith and kin and of Caesar. If Caesar's demands are sometimes aggravating, they are at least plain; and on the whole are recognizable as just and necessary. The conflict between our personal desires and those of the community may not yet be solved, but modern civilization renders it at least tolerable, by a compromise in which our own profession plays no small part.

The interesting point is that Christ stated the conflict in quite different terms. The conflict was not between what is Caesar's and what is our own; in fact, the 'our own' was not even mentioned. The conflict to which He drew attention was between the things which are Caesar's and the things which are God's. In this point lies the whole debate between Christianity and materialism. The debate does not lie in the contrast between Caesar's and God's for we, as accountants, should appreciate the lesson that both of these have their proper place. The debate centres rather on the missing words: on the meaning of 'our own'.

Behind Christmas lies the fact that God gave – for us. Does this provide the clue to the solution?

F. R. C.

#### The Inspector's Dilemma

by R. J. PICKERILL, F.C.A.

AT half past five H.M. Inspector of Taxes, New Town 3 District, closed the office door – thankful to be going home at a reasonable time. It was Christmas Eve and as he walked to the bus stop he studied the people hurrying by, laden with parcels, and his mind wandered to those financial accounts to be examined in the New Year in which 'General Expenses' would include 'Christmas gifts  $f_i x$ '.

'Rather nice,' he thought, 'to arrive in the office and find a bottle of whisky or a box of cigars on the desk as a present from A. & Co Ltd, even if your own firm had sent similar presents to all its customers.' Waiting in the chill wind for the bus he mused on the Christmas spirit of the Inland Revenue which allows the cost of the presents to customers as a deduction for tax purposes, but does not assess the recipients. Hard luck on the Schedule E chaps though, they don't get away with anything – but perhaps they take the presents sent to their companies!

On the bus he glanced through his evening paper, and contemplated a warm room and the cheerful greeting from his wife. She was obviously excited as he walked in – 'Look what's just arrived, John!' In the hall was a large parcel addressed to him. He opened it with some surprise – a Christmas hamper complete with turkey! A small typewritten card said: 'From taxpayers in New Town 3 District.'

Immediately his Civil Service mind began to work at full speed. 'Is this a bribe? What will the inspecting officer say? Can I keep it quiet?' Then he realized that if head office knew he received hampers from taxpayers he would be transferred—'Just as we have Tom settled in school.' Training had taught him that when in doubt consult the *Inspector's Manual*, but there would hardly be anything in there to cover this particular situation.

Mary obviously hoped he would accept the hamper. It was tempting but what should he do? The phone rang. It gave him an excuse for not telling Mary that Inspectors cannot accept gifts from taxpayers – not Christmas hampers with turkey and bottles of wine, anyway! He picked up the phone.

'New Town 3572'-'Hullo Roper-Burton here.'
(The Inspector No. 2 District) - 'Believe you've got a parcel - don't eat it all, old boy. I'll be round on Boxing Day - Cheerio!'

So he knew – but why? No chance of hiding this from the powers-that-be now.

The Inspector was still puzzled. There was no problem with gifts to customers because the donors were usually charged under Schedule D. Gifts from employers to employees were usually in kind and too small to worry about. (My Christmas bonus won't cause public departments any trouble, he thought – it's non-existent!) A Schedule E taxpayer could hardly claim successfully that a gift of this kind was allowable, but it would be hard to establish as allowable a gift to the Inspector of Taxes, even under Schedule D. If it were allowed he would surely have to accept that it accrued to him by virtue of his office!

'See if I can find something out about this,' he told his wife. He rang Bloggs & Snood, Chartered Accountants. Snood answered the phone – No, he wasn't working late – it was the office party. Yes – he knew about the parcel – a client had sent it but it would be a breach of confidence to say who it was!

What a blow! Somebody had sent it hoping for a tax benefit and it would have to be returned or given to the local hospital — and a full report sent to head office. Fancy spending Christmas with a turkey and two bottles of wine in the house, yet be unable to touch them and have to write a report to head office afterwards! These thoughts were interrupted by a knock at the door — a telegraph boy.

#### 'CABLE FROM S.S. CANADIA

HAPPY CHRISTMAS STOP ENJOY THE HAMPER STOP WE COULD NOT CARRY IT

(REV.) J. DOBSON'

ł

So that was it – from the vicar and his wife. But why send it to the Inspector of Taxes? He unpacked all the contents – at the bottom was a newspaper cutting showing the presentation of a Christmas hamper to the vicar prior to his departure for Canada. The vicar had underlined part of a reported speech: 'Bare ye one another's burdens' and had written 'and I can't carry this – so please help.'

'After all', thought the Inspector, 'taxation is a sharing of burdens. . . . Mary, bring the corkscrew.'

#### A Christmas Recollection

Regular readers of 'The Accountant' for the past fourteen years should have no difficulty in answering the following general knowledge questions selected from those which have appeared in previous Christmas issues over that period.

The first letter of each answer combines to form, without rearrangement, an appropriate quotation from Robert Burns. Where the answer is a person's name, the surname is given first. The solution appears elsewhere in this issue.

- 1. What is the name given to the science of studying and mapping the moon?
- 2. Who was imprisoned for referring to George IV as 'a corpulent Adonis of fifty'?
- 3. What Shakespearean character bade farewell to the 'pride, pomp and circumstance of war'?
- 4. Who translated Rabelais with panache, fought the Covenanters and is said to have died from the effects of a fit of joyful laughter on hearing the news of the Restoration?
- 5. What Shakespearean king was a man 'more sinned against than sinning'?
- 6. In which Dutch city did the painter Vermeer spend his entire life?
- 7. What is the opposite of homoeopathy?
- 8. What planet has for satellites Ariel, Umbriel, Titania and Oberon?
- 9. What is the piece of land between two pieces of ploughed land called?
- 10. Where in Britain did Julius Caesar first land?
- 11. What musical tempo is faster than adagio and slower than andante?
- 12. What single word describes bellicose patriotism?
- 13. What is the term for the fifth power of a million, i.e. 1 plus 30 ciphers?
- 14. What is the legal term describing the right of temporary possession, use or enjoyment of someone else's property as far as may be had without causing damage or prejudice to it?
- 15. What is the name of the sculptured leaf which is the distinguishing characteristic of a Corinthian capital?
- 16. What metal is regarded as a talisman against the baleful influence of fairies?
- 17. Who is the patron saint of Russia, of Aberdeen, of parish clerks, of scholars, of pawn-brokers and of little boys?
- 18. What famous Italian painter is reputed to have lived to the age of 99?
- 19. What is the heraldic name for the colour white?

- 20. What eminent British natural philosopher was born on Christmas Day, 1642?
- 21. To what gastronomic dish has a French master of epigram given his name?
- 22. Where is the temple of Diana, one of the reputed seven wonders of the ancient world?
- 23. What Victorian woman wrote a bulky classic, still a best-seller, married her publisher, produced four little boys and died in her late twenties?
- 24. What is the term applied to the custom of marrying only within the limits of a tribe or clan?
- 25. Who said that 'in this world, nothing can be said to be certain, except death and taxes'?
- 26. What is the 'wine month' of the year?
- 27. What street in Paris runs from the Place de la Madeleine to the Place de la Concorde?
- 28. What British king was unable to speak English?
- 29. What card game is played by three persons and with forty cards?
- 30. Who ruled over vast territories in central Asia and India, had his capital at Samarkand and lived from 1333 to 1405?
- 31. What Victorian critic referred to the poet Shelly as 'a beautiful and ineffectual angel'?
- 32. Who said 'If I have seen a little further than others it is because I have stood on the shoulders of giants'?
- 33. In a pack of cards, which king shows only his profile?
- 34. What is the term applied to flowers that open at night?
- 35. What modern poet suggested that the world would end 'not with a bang but a whimper'?
- 36. What artist, noted for his predilection for gigantic canvases, rich colouring and subjects depicting pomp and splendour, painted 'The Marriage of Cana'?
- 37. What is the annual Commemoration of founders and benefactors of Oxford Univer-
- sity, held in June?

- 38. What French city is the headquarters of the champagne industry in that country?
- 39. From what country does limburger cheese come?
- 40. In what opera does the character Sparafucile appear?
- 41. What is the Italian form of Roland, the hero of many medieval romances?
- 42. What doctrine was first expounded by Jeremy Bentham?
- 43. What mythological creature, with the head and legs of an eagle and the body of a lion, guarded the hidden treasures of the sun?
- 44. What is the red substance in blood which is responsible for conveying oxygen from the lungs to the rest of the body?
- 45. What is the county town of Somerset?
- 46. What was the Act of 1800 designated to prevent testators leaving their property to accumulate for more than twenty-one years?
- 47. What constellation contains the star Betelgeuse?
- 48. Who sang 'How happy could I be with either, were t'other dear charmer away'?
- 49. Who was the goddess of the rainbow?
- 50. Who in Greek mythology was the daughter of night and goddess of vengeance and chastisement?
- 51. With what country is the seguidilla associated?
- 52. What was the classical name for the Dardanelles?
- 53. To what group of British islands does Pomona belong?
- 54. What artist, noted for his treatment of perspective, painted 'The Rout of San Romano', now in the National Gallery, London?
- 55. Who designed the Cenotaph in Whitehall?
- 56. What animal was described by G. K. Chesterton as 'the devil's walking parody on all four-footed things'?
- 57. What Scottish town has an unsurpassed reputation for 'honest men and bonny lasses'?
- 58. Of which South American republic is Montevideo the capital city?
- 59. Who wrote the waltz 'Gold and Silver'?
- 60. Of what Biblical king was Nathan the trusted adviser?
- 61. What is the capital city of New York State?
- 62. What distinguished philosopher is supposed to have divorced his wife because her cooking fell short of his fastidious standard?
- 63. What in area is the largest province of Canada?

- 64. Who, headmaster in succession of Eton and Westminster, wrote the first English classical comedy *Ralph Roister Doister?*
- 65. What English novelist lived at Chawton, near Winchester?
- 66. What was the island home of Ulysses?
- 67. Who said 'Candy's dandy but liquor's quicker'?
- 68. What London district has the postal reference SW17?
- 69. Who was prime minister when George V came to the throne?
- 70. Into what slang word, current in the First World War, was the French il n'y en a plus corrupted?
- 71. Who, according to Byron in *Don Juan*, 'smiled Spain's chivalry away'?
- 72. What Greek, born circa 342 B.C., founded a philosophy on the belief that 'pleasure is the beginning and end of the blessed life'?
- 73. In which city, according to the rhyme, do 'the Lowells talk to the Cabots and the Cabots talk only to God'?
- 74. Who was the lifelong literary partner and friend of Karl Marx?
- 75. What Italian city did the Medici family dominate for more than two centuries?
- 76. What was the operational name for the Allied invasion of north-west Europe in 1944?
- 77. What Gilbertian character, in spite of all temptations to belong to other nations, remained an Englishman?
- 78. What is the dubious art of arranging election results statistics so as to make them appear other than they actually are?
- 79. Where had John Masefield's 'quinquireme of Nineveh . . . sailing home to haven in sunny Palestine' come from?
- 80. What river is common to Toledo in Spain and Lisbon in Portugal?
- 81. On what river was the fabulous city of El Dorado said to be located?
- 82. Who wrote the popular song 'Keep the Home Fires Burning'?
- 83. What is a plane figure of twelve sides, each solid angle being formed by three regular pentagons?
- 84. Who was the last of the twelve Caesars?
- 85. What is the point in the orbit of the moon at which it is furthest from the earth?
- 86. Of what country are Bosnia and Herzegovina provinces?

- 87. What is the faculty of making happy and unexpected discoveries by chance?
- 88. What was the pen-name of Marie Louise de la Ramée?
- 89. From what city did Rudyard Kipling's Kim set forth on his adventures?
- 90. What poetical name did Shelley give to Keats in his elegy on the death of the latter?
- 91. What adjective is applied to a will made orally and not in writing?

- 92. In what country would you be most likely to eat moussaka?
- 93. What philosopher was married to Xantippe?
- 94. What is the principal currency unit of China?
- 95. What prime minister of George III pursued a foreign policy which is said to have lost Great Britain her American colonies?
- 96. What is the international car registration letter for Spain?

#### Accounting Curiosities

by R. ROBERT, A.C.I.S.

VERY profession, of course, has its museum pieces; its time-hallowed customs, traditions, and rituals. Medicine and the law have them in every category and guard them zealously. In the case of accountancy, a younger profession, survivals from the past are fewer in number and of less picturesque variety. Yet they are there, and as time goes on will attract increasing attention.

#### The Tally

Take, for example, that interesting relic – the wooden tally, one of the earliest of all accounting aids. It is, of course, only a development of the notched stick; yet in medieval England its use by the tax collector, national and local, reached extraordinary proportions. Tallies were usually made from hazel wood, being usually not more than eight or nine inches long.

The cutting procedure was as follows: a cut the breadth of a thumb was fiso; a cut the breadth of a little finger was  $f_{120}$ ; the cut for  $f_{11}$  was of the 'thickness of a grain of ripe barley'; that for a shilling the merest notch, 'a little wood being removed;' a plain cut represented the sum of one penny. When the notching was complete the tally was split down two-thirds of its length – the notches in the two segments being, of course, identical. In essence, the tally was a receipt - the debtor receiving one part (the 'foil'), and the creditor the other part (the stock). So long as most of the population was unable to read or write, the device served a useful purpose. Tradition and vested interests, however, kept it going well into the nineteenth century.

There are at least two places in London where the interested reader may inspect tallies. A few of the more usual kind are displayed in the Public Record Office, Chancery Lane; others may be seen in the museum of the Bank of England, and are of astonishing size. The largest measures eight feet.

#### **Early Adding Machine**

How many people are aware of the long pedigree behind the accounting machines in their offices? Even accountants tend to think of them as specifically modern inventions dating back, at the most, to the time of Burroughs – i.e. some seventy years. In fact, man's endeavours to mechanize arithmetic are almost as old as civilization; witness, for example, that ingenious mechanism, still in use in Soviet Russia and Japan, the abacus. This is believed to have originated in the Near East at least 2,000 years ago.

But the abacus, it will be objected, was hardly a machine as that term is understood today. Yet even here, surprises are in store, as anyone visiting the South Kensington Science Museum will find. There, in a special gallery, may be seen calculators, recognizable ancestors of our present machines, going back to Charles Dickens's day – and beyond. Burroughs, who in 1892 produced the first authentic adding-cum-recording machine, is naturally represented there. So, too, are Charles Babbage (1792–1871), who has good claims to be regarded as father of the modern computer; Matthieu Hahn, J. H. Müller, two eighteenth-century inventors, and many others.

The star exhibit, however, is a compact, portable apparatus which looks rather like a Swiss musical box and is full of clockmaker's wheels and cogs. This is a replica of the world's first calculating machine (the original is in the

Conservatoire des Arts et Métiers, Paris) and must be regarded as the prototype on which nearly all the others are based. The inventor – Blaise Pascal, famous French philosopher and scientist – built the machine, which could both add and subtract, in 1642!

#### Rare Books

Over the centuries a great mass of literature has accumulated on the subject of accounting. Many of the old books are inevitably concerned with the art of double-entry book-keeping, and some have become highly-prized collector's pieces.

The first, of course, was Luca Pacioli's Summa de Aritmetica – a work published in Venice as far back as 1494 – which contained a section devoted to book-keeping. Pacioli was no innovator; he learnt his subject in the market-place from the merchants who had practised double entry for at least 150 years. But the book was an important one and attracted attention not only in Italy but abroad. Many translations appeared – in Germany, Holland, France, Britain – often without acknowledgement of any kind.

Periodically, as at the Guildhall Exhibition held in 1952 in connection with the Sixth International Congress on Accounting, some of these old books on book-keeping make a welcome, if all too brief, appearance. A copy of Pacioli's Summa de Aritmetica dominated that particular occasion. Beautifully printed on hand-made paper, it appeared as fresh as on the day it left the presses. Also on view were works by Johann Gottleib, printed in Nürnberg in 1531, a German treatise on double entry, the French Le Trésor de Tenir Livres des Comptes à l'Italienne, and miscellaneous books by authors of Dutch, Spanish and other nationalities.

The first English book based on Pacioli, A Profitable Treatyce, appeared as far back as 1543. The author was Hugh Oldcastle, a London schoolmaster, and the work has a strange history. Printed by John Gough, one of the earliest English printers, shortly after the author's death, it had within fifty years become extremely rare. Nearly a century later, in 1779, a solitary copy, perhaps the last of the edition, was offered for sale at an auction. Even that disappeared and today A Profitable Treatyce is no more than a legend – kept alive because another teacher of book-keeping had it reprinted.

This reissue, dated 1588, by John Mellis, has managed to survive. Copies of it may be seen in the British Museum, and in the library of The Institute of Chartered Accountants in England and Wales, under the title: A briefe instruction

and maner how to keep Bookes of Accompts after the order of Debitor and Creditor. Mellis, in a preface acknowledges that the book – the first of a long line of English primers and manuals – is merely Oldcastle 'renewed and revised'. The original, of course, is what we would like to see, and the flame of hope still flickers against its turning up one day.

#### **Rhymes and Prayers**

Our forbears of the seventeenth and eighteenth centuries had some difficulty in mastering the new techniques of double entry due, at least in part, to the lack of competent teachers. The journal in those days played a far more important role than it does today. All transactions went through the journal and the problem facing the student was not only which accounts to debit and credit, but how to frame the journal entries. Teachers and textbooks followed the method of making the aspirant book-keeper and 'accomptant' memorize a long list of rules. To make things easier, these rules were often embodied in short doggerel verses. John Peele, book-keeper to Christ's Hospital during the reign of Elizabeth I, was a pioneer in this respect.

Now for what may be termed a book-keeping 'ritual'. It was once the invariable practice for account books to have prefaces of a religious nature. Charles Lamb, who earned his living as an 'accomptant', refers to this old custom in one of his essays. He speaks, in South Sea House, of enormous ledgers – 'with fantastic flourishes, and decorative rubric interlacings . . . and pious sentences at the beginning . . .'.

An example is provided by Sir Thomas Gresham, whose day book, opened on April 26th, 1546, has a dedication containing the phrase 'Please God to give me profit and prosperity and to defend me from evil and damage. Amen'.

One of the first teachers to advocate abolition of the custom of invoking the blessing of the Almighty on commercial transactions (as well as of the mnemonic jingles) was Simon Stevin, of Bruges (1548–1620), mathematician, scientist, financial expert, and author of a treatise on bookkeeping in the 'Italian style'.

Stevin does not appear to have been prompted by motives of an anti-religious nature. Rather, his aim was to rationalize book-keeping procedures, to bring them up to date and make them more efficient. God, he probably thought, would automatically be on the side of the merchant who was just in his dealings, and kept true and accurate accounts!

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# The Accounting Profession and the European Common Market

We are indebted to the Editor of The Canadian Chartered Accountant for permission to reproduce the following article from the November issue of that journal

With Britain's possible forthcoming entry into the European Common Market, leaders of accounting thought in Scotland, England, Belgium, France, Germany and Holland were asked to give their appraisal of what lies ahead for the profession. Here are their answers to eight specific questions recently put to them by the Editor of The Canadian Chartered Accountant. To avoid confusion, the answers from Mr Alexander McKellar, of The Institute of Chartered Accountants of

Scotland, to questions I, 2 and 7 are presented first, because these questions differed slightly from those submitted to representatives of other European Institutes. Mr McKellar has pointed out that his answers to the questionnaire express his personal views and are not necessarily indicative of his Institute's attitude and he refers only to the position as it affects Scotland. No reply has been forthcoming from The Institute of Chartered Accountants in England and Wales.<sup>1</sup>

Now that Britain has applied for membership in the European Common Market, what would you say is the most vital task before the profession today?

McKellar: If Britain should join the Common Market, an immediate task for the accountant, whether as independent professional adviser or as holding an executive position, would be to make himself familiar with the differing conditions in which trading is carried on in the various countries of Europe. Particular attention would require to be given to such matters as restrictive practices (including quota arrangements), to governmental subsidies and supports in various forms, and to problems which might arise either through the breaking down or the entire elimination of tariff walls both by Britain and by the other countries of the Common Market. There could also be quite considerable problems affecting the employment of labour, as it is understood that on the Continent there are far fewer trade unions than in Britain, and questions involving demarcation lines do not loom so large as they do here.

Has the profession begun planning for the day when Britain becomes a member of the E.C.M. and, if so, how does it go about creating a new framework to meet the changing conditions?

McKellar: This question pre-supposes that a new framework is necessary, and this is not necessarily admitted. I think it is true to say that members of our Institute in general have not given serious consideration to the effects of Britain joining the Common Market. The Institute has, however, had this matter very much in mind for some time, and it is a very proper service for its members that it should do so. The extent to which preparations will be required must inevitably depend on the speed with which integration takes place, and it is not thought that any specific programme can be laid down beforehand. It is

felt, however, that in Scotland the close relationship which exists between the practising accountant and his clients, where he is, to a large extent, guide, philosopher and friend, will ensure that the requisite professional advice will be forthcoming to help industry in Scotland to meet the challenge of new trading conditions.

Company law in Britain differs from company law in European countries. What effect will this have on accountants in the various countries involved?

McKellar: In general, it may be said that the law moves much more slowly than does accountancy, and that whereas the laws of each country have been drawn up to meet the particular circumstances within that country, the majority of accountancy practices are of universal application. Even if it is ultimately found to be desirable, the unification of the laws throughout various countries would, therefore, seem very much to be a matter for the distant future. Pending that time it is suggested that where an accountant in one country is required to give professional advice in another country, he would require to equip himself with at least some knowledge of laws relating to companies and to taxation in the latter country.

The questionnaire follows as it was submitted to the other European Institutes with answers from Mr H. C. Treffers (Nederlands Institut van Accountants), Monsieur Joseph Colleye (Collège National Des Experts Comptables De Belgique), Mr E. Archavlis (Société des Experts Comptables Français), Dr W. Dieterich (Institut Der Wirtschaftsprüfer in Deutschland e.v.). Mr McKellar's answers to the balance of the questionnaire are also included here.

<sup>&</sup>lt;sup>1</sup> See statement from Sir Thomas Robson, M.B.E., M.A., F.C.A., at page 818.

1. With the formation of the E.C.M., what would you say is the most vital task, before the profession today?

**Treffers:** The most vital task before the profession today is to ensure that the forced pursuit of uniformity does not result in a lowering of standards in countries where, until now, they have been maintained at a high level.

An important responsibility of the profession in Europe will be raising the level to an acceptable height in countries where it is now considered to be too low. It will even be necessary in several countries to establish the fact that the accountant's essential function is to certify published financial statements.

**Colleye:** The Common Market, in its final stages, is inconceivable without the free circulation of people, services and capital.

Articles 52 to 66 of the Treaty of Rome call for the gradual removal of restrictions of establishing and presenting services in the interior of the Community for nationals of a member State wishing to establish themselves or practice on the territory of another member State.

The programmes of liberation and co-ordination which are implied in the Treaty of Rome pose many problems of a complex and delicate nature because of the disparity which prevails between one country and another in conditions of entry and practice of the profession, in the study and granting of diplomas in practical education, in membership in a public or private organization, in ethics, etc. These problems can only be resolved satisfactorily by meetings between representatives of the E.E.C. and qualified representatives of the profession.

Under the auspices of the L'Union Européenne des Experts Comptables, Economiques et Financiers (U.E.C.) a study group was formed in 1958 made up of professional accountants of the European Economic Community (E.E.C.). This had, as its objective, the consideration of methods of implementing the clauses of the Treaty of Rome the proposals for liberalization and co-ordination affecting the professional accountant and the economic and financial adviser, etc.

It cannot be denied that carrying out the liberalization foreseen in the Treaty of Rome will require much more careful collaboration between the professional accountants of the six countries belonging to the E.E.C.

Archavlis: The vital task for professional accountants within the framework of the Common Market appears to me to be, first, to define and examine the activities of the profession.

Dieterich: Although professional work all over the world has become more important in recent years, there will undoubtedly be entanglements within the European area which may decisively influence the professional position of the accountant. His most important task will be to improve his knowledge of languages as well as the legal status and professional

practices of the Common Market members. The younger members of the profession will have to acquire experience abroad both in practice and committee work as they have existed for a long time within the framework of the U.E.C. The days have gone when the profession operated mainly on a national basis.

2. Has the profession in your country begun planning for the day when Britain may become a member of the E.C.M. and, if so, what fresh problems does it create?

**Treffers:** Great Britain's joining the E.C.M. creates no other problem than those already in existence for the accounting profession in the E.C.M.

Colleye: The Belgian professional organization of accountants was inspired by that of Great Britain. In 1960, the National College undertook to bring together the presidents of the British and U.E.C. associations in Brussels.

From the discussions on that occasion and those which took place at the congress in Zürich (September 1961) resulted the first effective collaboration of the British Institutes of Chartered Accountants with those of the Common Market countries. This is evidenced by the organization of an important conference of European accountants in Edinburgh for September 1963.

The Belgians hope that this collaboration can be continued and developed in a permanent way within the U.E.C. organization.

Archavlis: I do not know if the Belgian profession has any projects in mind relating to the eventual association of Great Britain to the Common Market. For the time being, the French profession has none because the matter has just come to the fore.

Dieterich: If Great Britain joins the European Common Market, the existing problems of the accounting profession will only change inasmuch as the liberalization will then expand to include another country firmly rooted in professional tradition and having recognized subsidiaries of accounting firms all over the world. But there need not be fear of competition; on the contrary, expansion of the E.C.M. is also welcomed in the professional field. Exchange of thought, however, will become more difficult because, up to now, two languages - French and German - have sufficed to serve the group of six, and Britain's entry would necessitate the addition of another language. The language problems concerning Great Britain will be more significant, as the number of Britons having so far shown an interest in acquiring a knowledge of other European languages is still very

3. Should there be some kind of 'supreme authority' on accounting to give decisions of universal application on accounting principles and auditing standards?

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McKellar: It should be said at once that in Scotland there is an extensive dislike of hard and fast rules with which the profession must comply. This attitude may be due, in part, to the fact that accountancy developed as a profession in Scotland at a much earlier time than in other countries, and it may be that the experience gained over these years has warned against too rigid an approach to accountancy problems. It is recognized, however, that in certain countries the profession has developed on different lines which have led to the emergence of certain maxims to which it is considered everyone should have regard without necessarily being required to accept them without qualification.

As indicated, however, Scotland's preference is for a free exchange of views both within the profession in Scotland and with representatives of leading accountancy organizations throughout the world. This is evidenced by the interest which Scotland has taken in the past in International Congresses of Accounting and by the fact that it is taking a leading part in the organization of the first Congress of European accountants which is to be held in Edinburgh in

September 1963.

Treffers: In general, and also nationally, I think it very undesirable that a 'supreme authority' should get power 'to give decisions of universal application on accounting principles and auditing standards'.

As to accounting principles, neither business nor the profession would have sufficient influence over the 'universal application'. Besides, there would be great danger of rigidity and formalism. If the necessity for any 'authority' in this field should be felt it would seem best to restrict its stipulations to the requirement that the accounting principles applied are clearly described in financial statements. As regards the auditing standards, the objections mentioned above apply to an even greater extent. The choice of auditing procedures can only lie with the profession itself.

Apart from the objections of principle, the establishment of a 'supreme authority' within the E.C.M. would also be impossible owing to the great variety in professional concepts, in auditing standards and even in understanding of the fundamental task of the profession with regard to financial statements. There are several European countries in which it is not considered to be the principal task of the accountant to certify published financial statements.

College: In the many European conferences of professional accountants, the emphasis has been on unification of methods of auditing and standardization of accounting systems. The U.E.C. have already put out a manual on accounting research and hope to present a European accounting plan to the Congress in Vienna in 1964.

The movement toward uniformity is evident everywhere in Europe and the problems which it implies should be studied by an organization of international professional accountants.

Archavlis: In my view, a 'supreme authority' on accounting to give decisions of universal application on accounting principles and auditing standards already exists: that is actually the present rule of the principal committees of the European Association of Professional Accountants. They have already been working on these problems. Monographs have appeared. It will be sufficient if the British delegation associates itself with this work to give them the necessary relevance.

Dieterich: We do not consider that a so-called 'superior authority' in the accounting field is desirable. The professional principles within the individual partner countries of the Common Market are based partly on law and partly on union regulations. These individual ties cannot and should not be disturbed as a European Common Market is tied in with the economic and tax laws of the various countries, but this should not lead to an unappreciation of national requirements. It is essential that information be gathered on the legal and technical professional level in the individual countries and all efforts must be concentrated on meeting the various conditions. However, professional autonomy in various countries will not be affected by this.

4. It is recognized that the practice of accounting and auditing is different in certain respects in the United Kingdom from that in European countries. What steps need to be taken to deal with this situation? What sacrifices, if any, might be entailed?

McKellar: In attempting an answer to this question one has to bear in mind the essential difference between accountancy and auditing. The subject of accountancy covers decisions as to the records to be kept, the method of keeping these records (i.e. bookkeeping), the preparation of statements to show trading results for specified periods, and financial statements as at specific dates, the interpretation of these statements and the drawing of conclusions from them. It is apparent, therefore, that depending on differing types of industry and commerce, differing methods of conducting such units and differing sizes of individual units, there must be correspondingly differing systems of accounting. In other words, the business unit determines the kind of accounting system which it requires, and it is not thought that the provision of the necessary specialist advice will provide difficulty to the profession in Scotland.

As opposed to the provision of accountancy advice, which is essentially a constructive function, the functions of the auditor are, to a considerable extent, critical in that the emphasis is on verification of the position brought out in accounting statements. In Scotland, auditing techniques have been developing down the years and must continue to do so to meet changing conditions. There has been increasingly an insistence on the independence of the auditor, and while there are no statutory provisions as regards

businesses in private ownership (whether by individuals or partnership) there are statutory regulations affecting the audit of the accounts of companies, and these form by far the largest part of British industry and commerce. There are also audit regulations relating to the accounts of nationalized industries, local government authorities, building societies, friendly societies and many other organizations.

Entry by Britain into the Common Market could, as envisaged in the answer to Question 1 above, lead to an increased demand for accountancy services. In relation to auditing, there are at present statutory requirements for the audit of the accounts of virtually every type of organization apart from privately-owned concerns, and it is not thought that entry into the Common Market would affect this position. The term 'sacrifice' would not therefore seem to be appropriate to the profession in Scotland.

Treffers: This problem does not only occur between the E.C.M. countries and the United Kingdom, but also between the E.C.M. countries themselves. Further, it may be pointed out that there will presumably be no uniformity in the application of accounting principles in any individual country. The intensification of international contacts and the internationalization of business life will be the media through which a very gradual improvement may be effected. As to auditing, it will be possible to achieve, in the long run, a generally acceptable level by regular international contacts between the professional organizations, by exchange of ideas and experiences and under the influence of the expected internationalization of business life.

Colleye: It should be possible to bring about uniformity through an international organization of professional accountants. The Edinburgh Conference in 1963 will have on its agenda methods of accounting research and, in consequence, a study of the necessity for international standardization of them.

Archavlis: As soon as the British delegation has joined those of Germany, Belgium, France, the Netherlands, Italy and Luxemburg, it will be up to the committees of the European Association to determine what measures should be taken to deal with the disparities in accounting methods and of auditing procedures between the United Kingdom and these other European countries. The European Association includes, also, the sister associations of Austria, Spain, Portugal and Switzerland.

Dieterich: Every country differs in its accounting and auditing practices. Great Britain also has her peculiarities and various differences exist compared to the German chartered accountant, though there is little variation in basic technical matters and ethics. It may be that greater emphasis is placed on the formal audit and annual financial statements in Great Britain than in Germany, but the German

chartered accountant, on the other hand, places more emphasis on the material audit and the profit and loss statement. What is needed are permanent expert committees from whose work everyone will benefit. As a modest contribution the pioneer work of the U.E.C. expert commissions is readily available.

#### 5. How long do you think it will take to establish a new system or revisions in accounting philosophy?

McKellar: The answer to this question lies within the comments made in reply to the four preceding questions. It is not thought that there is any necessity for a new system for the provision of accountancy advice in Scotland, and changes, if any, in accountancy thought will derive from changes in the conditions under which business is carried on.

Treffers: Accounting philosophy is closely connected with the mentality of the population and with the way in which business life is organized as to financial affairs. A growing closer together of the various philosophies will only be possible over a long period.

Colleye: It is difficult to foresee exactly how long it will take for this standardization because this depends on the enthusiasm with which the studies are carried out. If it were possible to obtain the maximum goodwill from the countries participating in it, this standardization should be accomplished in five or six years.

Archavlis: It has already taken ten years for the U.E.C. to establish its present plans for standardization of accounting research. The future work of its committees will be able to take advantage of what has already been accomplished. I estimate that three years will be required for the necessary co-ordination (the time between two European Conferences), beginning when the British delegation and the European Six have established contact.

Dieterich: No matter how soon customs duties are abolished, it will still be difficult to clarify the provisions of the Treaty of Rome regarding the liberalization of the law governing the establishment of companies and commercial transactions. The problems of the accounting profession are quite varied compared to those of other professions, and it must not be overlooked that numerous regulations in national law are affected by the work of the Brussels authorities. Nevertheless, it was established that the liberalization of the accounting profession in view of its importance in our economy, should be treated with priority and be finalized by the end of 1965. However, in so short a time it is impossible to cope with all questions connected with the standardization of technical examinations, the adjustment of future examinations with a view to a greater uniformity of requirements and, finally, the unavoidable introduction of additional examinations. These additional examinations should be introduced for situations

where particularly important tasks in the interests of the State and the economy are entrusted to the accounting profession and where the knowledge of national law and national professional practice must be proved.

#### 6. What are some of the basic issues with which the profession has to deal?

McKellar: It is difficult to visualize all the issues that will arise, but they will certainly include the question whether assets should be amortized by reference to historic cost or to replacement cost.

Furthermore, in view of the possible 'harmonization' of legislation in the fields of, *inter alia*, taxation, company law, monopolies and re-sale price maintenance, it may well be that the profession will have to adjust its present thinking on many subjects.

**Treffers:** One basic issue is the adjustment of professional education to the requirements of the moment so that accountants can offer their clients sufficient service, e.g. in respect of management auditing, systems, etc. These subjects should be parts of the normal programme of examinations.

Another is arousing sufficient interest in the study of accounting and the professions so that the accountant's offices can obtain an adequate supply of staff.

Colleye: There is no particular difficulty in Belgium.

**Archavlis:** The only basic difficulty which, it seems to me, must be taken into account is vocabulary. I believe that this is our first task.

Dieterich: The chartered accountant is not experiencing any particular difficulties in connection with his work within the European Common Market. His superior technical knowledge, confirmed by a special examination upon completion of his studies, proves that the standard of the German chartered accountant compares favourably with that in neighbouring countries.

#### 7. Company law differs in practically every European country. What effect will this have on accountants in the various countries concerned?

Treffers: No serious effect. Accountants will have to reckon with the existing laws. In the case of important differences, the accountant will not be able to perform an audit in another country without having acquired beforehand sufficient working knowledge of company law in the country concerned. This will often lead to a preference to have audits performed by accountants of the country in question, provided that the national level of the profession is adequate.

Colleye: It goes without saying that in the more or less distant future a European type of company will be created. European jurists have already proposed the legal basis for such a type of company.

While they are waiting for this, professional

accountants will have to conform to the legislative requirements which exist in the countries of the Common Market.

Archavlis: Company law already differs between the countries of the Six. The entry of Great Britain will only add an additional element to this disparity. I do not think, however, that the problem should be exaggerated. Other professions, lawyers for example, are now working towards a solution of judicial problems. Auditing techniques will have to evolve along with solutions of the legal questions. It is the task of our committees to prepare and follow this evolution.

Dieterich: Company law is governed by different regulations in the individual countries. Deviations also exist in the professional field regarding valuation regulations. Within the European Common Market, these have special significance for Great Britain and Germany, whereas elsewhere the respective regulations are of less importance. In this respect, professionals working abroad at the present time must of necessity become thoroughly acquainted with the legal status beyond boundaries, thus enabling them efficiently to carry out the professional work entrusted to them. So far as the auditing of annual financial statements of corporations, this is legally regulated and only carried out by chartered accountants or firms of chartered accountants, and in Germany, we are planning additional examinations that foreign colleagues will have to undergo. In the long run, however, even the most conservative experts will surely support the development of a European company law, for only in this way will the economy be given the legal scope and security for an expansion beyond boundaries. There is no doubt that in this development as well as in the tax field there are enormous difficulties and possibly decades will pass before its fulfilment.

## 8. Is there likely to be much interchange of accounting personnel in handling assignments between one country and another and how will this affect educational and training requirements?

McKellar: This question can perhaps be answered by the following three brief statements:

- (a) It is thought that the handling of assignments between one country and another is much more likely to give rise to an interchange of accounting views rather than of accounting personnel.
- (b) Apprentices in each country within the Common Market are not likely to be much affected in the immediate future.
- (c) In making arrangements for the education of apprentices, however, regard will have to be had at an early date to the integration of trading activities within the various countries, and
- apprentices will require to be made aware of the

differences which at present exist, of the changes which are taking place, and of the likely ultimate pattern of business throughout the Common Market.

Treffers: What is said under the answer to question 7 is applicable here too. It is not to be expected that there will be much interchange of personnel. It will be necessary, for instance, that the accountant who certifies the financial statement of a parent concern satisfies himself that the foreign accountants of the subsidiary enterprises have performed their audits in a way which he considers to be acceptable. Personal contact and examination of the files and of the auditing standards applied will be necessary in this connection.

Colleye: The interpenetration of firms within the Common Market and the provisions of the Treaty of Rome leading to free establishment and payment throughout for services will bring about a transfer of accounting personnel and probably the merging of associations between professional accountants of different countries. Already, feelers have been put out by different firms of accountants to establish such collaboration. The British Institutes are also engaged in discussions with Belgian accountants to the same end.

Naturally, in order to make this collaboration effective and to bring about such a transfer of personnel, improvements will have to be made in the education of the accountant and his personnel. The idea of the European diploma has already been rejected by French accountants. We believe, however, that the educational programmes will have to be reviewed during the next few years. Furthermore, it should be possible to achieve standards for on-the-job training in many countries of the Common Market.

Archavlis: The impact of liberating interchange of personnel in the services contemplated in the Treaty of Rome will naturally be an important function of the people who move; some practitioners will move more easily or more willingly into one country than into another. The question of training accounting personnel is already being considered by the Committee on Professional Education of the European Association. This has centralized training programmes and instituted a European competition which gave prizes for the first time in Zürich in September 1961. I believe, moreover, that the conferences, such as those which we had in Zürich last year, and in New York this year, and those to be held in Edinburgh in 1963, and in Vienna in 1964, are bound to strengthen the bonds which unite our members throughout the world.

Dieterich: Already many young Germans working in the accounting field want to take up work abroad in order to get acquainted with the technical language, the professional practices and the basic laws of the neighbouring countries. Similarly, we are frequently approached by friendly foreign organizations with regard to assisting their junior professionals. This exchange is still modest. But when today's youth, equipped with a more intensive knowledge of languages already acquired in school, begin entering professional practice, these exchanges will increase. Therefore, professional organizations should do their utmost to support this exchange of junior professionals. From this, many opportunities in the form of partnerships will result. Incidentally, a new German professional law gives the Federal Minister of Economics authority over the vocational training of juniors, and in this connection stress will be laid on the practice of training abroad.

#### Views of Sir Thomas Robson, M.B.E., M.A., F.C.A.

from the standpoint of

#### The Institute of Chartered Accountants in England and Wales

In connection with the comment regarding The Institute of Chartered Accountants in England and Wales, in the preamble to the foregoing article, we understand from the Institute that the Editor of The Canadian Chartered Accountant was informed that the questions posed by him were thought to deal with matters of great importance at the present time, and that as these matters are so big and complex the Institute felt that they could not be dealt with adequately by means of short answers. In order, however, to make clear that the Institute has a live, constructive and important interest in European affairs, Sir Thomas Robson has contributed the following notes.

The future of the accountancy profession depends upon the development and improvement of professional standards and of the accounting principles underlying those standards. At present in the countries of Europe there are widely differing standards and concepts in the profession and in the educational and training requirements. The advent of the European Common Market has served to emphasize the long-standing need to bring about greater uniformity of standards and concepts. This can be done only by exchanges of information and experience and it is not a process that can be hurried. It is, however, a process that can be greatly hindered by any form of restriction on the practice of the profession in so far as the restriction is irrelevant to the competence and integrity of the individual accountant.

Taking the world as a whole there are far too many

such restrictions based on matters such as nationality, place of residence or association in partnership. Where such restrictions exist in countries which are or become members of the Common Market, their removal will have to be achieved in order to comply with the liberalization requirements imposed under the Treaty of Rome.

The position in the United Kingdom is already in accord with the principles underlying this aspect of the Treaty of Rome. It is also in accord with the view which has been repeatedly expressed by the Council of The Institute of Chartered Accountants in England and Wales since long before the Treaty of Rome. This view is that the ideal arrangement is reciprocity, in all parts of the world, of the right to practise under the professional designation which the individual accountant has obtained by training, examination and experience, and there should be no restriction on the right to enter into partnership arrangements with properly qualified accountants whatever may be their country of residence.

Anyone, of any nationality, race, colour or creed, can qualify for membership of The Institute of Chartered Accountants in England and Wales by coming to the United Kingdom and satisfying the Institute's training and examination requirements. Having qualified he is not subject to any restriction, by the Institute or by United Kingdom law, which would prevent him from practising anywhere in the world or from entering into partnership with whomsoever he may choose. Because that has been the situation throughout the whole of the Institute's history, since its incorporation by Royal Charter in 1880, its members are to be found in all parts of the free world and, through partnership arrangements, many of them have facilities for exchange of information and experience and the ability to draw on the best standards developed in various countries. These facilities are greatly to the benefit of the profession and its clients. Any restriction which tends to prevent accountants from providing their services in any part of the world cannot in the long run be otherwise than detrimental to the profession and, indeed, to the economy of the country imposing the restric-

It is sometimes wrongly thought that the United Kingdom is itself restrictive because the Institute has no reciprocal arrangements whereby its membership can be obtained by members of overseas accountancy bodies. It cannot therefore be emphasized too strongly or too often that although there are no such reciprocal membership arrangements there is nothing to prevent an overseas accountant from practising in the United Kingdom. Moreover, in relation to the only restriction of general importance on the work which an accountant is permitted to do (namely, the provisions of the Companies Act, 1948, concerning qualification for appointment as auditors of public and non-exempt private companies) the Act specifically empowers the Board of Trade to authorize for such appointments accountants who have obtained suitable qualifications outside the United Kingdom. This power is readily exercised. Over six hundred accountants with overseas qualifications have been so authorized. The Board of Trade is concerned only with the qualification held by the individual who wishes to be authorized; neither nationality, race, colour, place of residence, nor partnership association, is a relevant consideration.

This is a well-tried system and the Institute believes that it is right. It avoids all the problems inherent in any attempt to provide for reciprocal interchange of qualifications and it also has the merit of permitting the accountant to practise under the designation which he has acquired in his own country so that those who use his services are aware of the qualification he holds. This is what underlies the Institute's inability to enter into reciprocal membership arrangements. The Institute takes the view that persons using the services of a chartered accountant are entitled to assume that he has acquired that title by satisfying the training and examination

requirements for that qualification.

Turning now to the professional work on which accountants are engaged, they are clearly capable of exerting considerable influence on the business world. For example, the Companies Act, 1948, gave statutory force to many of the Recommendations on Accounting Principles issued by the Council of The Institute of Chartered Accountants in England and Wales. Those Recommendations were themselves the outcome of good practice developed by chartered accountants and adopted by companies in advance of any statutory requirements. This is a process which must be continued and it will be of special importance in relation to the changes in company law, taxation and other legislation which are bound to take place in the European countries, including the United Kingdom, as a result of the Common Market. These changes will take time and will not be achieved successfully except by exchanges of information and experience. Nor can the process be hurried. The matters involved are largely those for which the right evolutionary process is, first, the development of sound principles, then their general acceptance in responsible business quarters, and finally, their blessing by statutory enforcement. This is a difficult enough process for one country alone. The task of achieving this kind of development throughout the world on broadly comparable standards is a task of enormous magnitude towards which the international congresses are making their contribution. The forthcoming European Congress of Accountants to be held in Edinburgh in 1963 is a further step in this direction.

The Institute of Chartered Accountants in England and Wales has a responsible part to play in these matters because of its long experience, the high standards which have been developed in the United Kingdom on the basis of the disclosure of a true and fair view in the annual accounts, and because of the unparalleled extent to which its members have spread themselves throughout the world.

#### Weekly Notes

#### SECURITY OF EMPLOYMENT

THE Contracts of Employment Bill to give greater security to manual and clerical workers was published last week. The Government hope to have it enacted by the spring of 1963 but its effects are not likely to be felt before the spring of 1964. The Bill does not affect workers in Northern Ireland.

The main provisions of the Bill are as follows. First, both employer and worker must give at least two weeks' notice of termination of employment if a worker has been two years in his job. After five years the minimum notice is four weeks. Secondly, workers will be guaranteed minimum pay during notice, usually at a rate not less than the average weekly earnings over the previous six months. Thirdly, strikers will forfeit their rights under the Bill if they stop work without giving notice. For a worker with two years' service or more, strike notice must be fourteen days. The same warning will be required from those with less service but who have a contract laying down a fortnight's notice. Where a worker has a contract laying down notice between a week and a fortnight, he must give a week's notice before striking. Thus only those with contracts giving a short period of notice can stage lightning strikes and retain their record of uninterrupted

The other main part of the Bill lays down that an employer must give permanent workers a written statement or contract setting out the main terms of employment. Failure to comply makes him liable for a fine of £20 for each worker and in certain circumstances it may go up to £100.

Thus after having the matter under consideration since 1947 the Government has decided to present legislation. It seems likely that workers in some industries will be more benefited than others and it is doubtful if it will have much effect on lightning strikes. As to whether it increases or decreases mobility of labour remains to be seen. The Bill as published is a very modest start towards a national policy of improved compensation for redundancies in employment.

#### STIFFENING ON THE E.C.M.

RECENTLY the Chancellor of the Exchequer said that this country wished to join the European Common Market but 'we have all said from time to time that it is not a question of disaster if we don't'. He, therefore, went some way to endorse the speech given by Mr Erroll, President of the Board of Trade,

over the week-end when he said that it would not be an irremediable disaster if this country did not join the E.C.M. The Government is, therefore, at least giving the impression that its attitude to the E.C.M. negotiations is not going to soften. Doubtless this is partly intended for the benefit of the negotiators and partly for the electorate, although a recent motion tabled by fifty Conservative M.P.s about the alternative to the E.C.M. indicated stiffening in the party's views since the party conference.

Once again this week the negotiations at Brussels have stuck on the question of agricultural subsidies. A spokesman of the West German Government last week indicated that West Germany was prepared to see a reduction in the price of wheat but there has been no constructive reaction as yet from the French who have an important vested interest in high wheat prices.

In matters of this kind, the impetus in the negotiations is all important. There are indications that opinion in this country is becoming concerned that food prices might increase by as much as 10 per cent overall if the United Kingdom joins the E.C.M. There is general agreement that the short-term effect of this country's adherence to it might be unpleasant despite long-term advantages. The longer the delay at Brussels the bigger will seem the short-term difficulties and adjustments. There is a time limit on all this and it is clear that a war of nerves is developing as all parties knowingly approach the deadline. The communiqué following the meeting between Mr Macmillan and President de Gaulle last week-end showed little weakening as yet on either side.

#### NIC'S FIRST TASK

National Incomes Commission could suggest that the Government has given it an easy first case upon which to cut its teeth. The introduction early last October of the forty-hour working week for plumbers in the Scottish building industry was followed within a few weeks by its extension to all building workers. Inevitably, the claim has now been put before the civil engineering industry in Scotland, whose rates and conditions for labour are based upon national agreements extending to the rest of Britain. Hence, were this industry to grant this concession the repercussions for labour costs throughout British industry generally would be serious.

It is only a year since the working week of building labour south of the border was reduced from forty-four to forty-two hours; a further reduction along the lines of the Scots agreement would lift building costs substantially. This would mean that industry would be faced by higher costs for new factory space, higher rents for offices and, above all, rents of new housing accommodation would have to be increased. The inflationary potential of such increases, let alone the inevitable demand for a forty-hour working week

throughout all branches of British industry, would be

What is at stake is the competitive capacity of British industry which, during the past year or so, has at least enjoyed relative stability of costs and thereby seen its exports become more competitive. The manner in which NIC grasps this particular nettle will be indicative of the prospects for price stability in the British economy.

#### NEW MEMBER APPOINTED

PROFESSOR R. C. TRESS, Professor of Political Economy at Bristol University since 1951, has been appointed an additional member of NIC. Professor Tress, who is aged 47, was previously Reader in Public Finance at the University of London, and during the Second World War acted as an economic adviser in the Cabinet Secretariat. He will serve as a part-time member of the Commission.

It has also been announced that Mr L. C. Hawkins, C.B.E., F.C.A., whose appointment to the Commission was referred to in *The Accountant* of November 10th. is to be a full-time member of the Commission instead of a part-time member. The deputy chairman of the Commission, Professor H. S. Kirkaldy, C.B.E., Professor of Industrial Relations at Cambridge University, who is at present serving as a part-time member will also become a full-time member after May 1963.

#### POOR EXPORTS IN NOVEMBER

IN November this country's external trade position deteriorated. The trade gap widened from £44 million to £56 million but this turn for the worse did not have much effect on the foreign exchange market when the figures were announced last week.

The main reason for the fall was a drop of  $f_{32}$ million in the export figures which, seasonally adjusted at  $f_{304}$  million, were the lowest since January 1962. Imports were down by £18 million and were at their lowest for five months with a figure of £375 million.

There is every indication that exports have begun to level off. There is some consolation in the possibility that imports have been doing the same thing. This has been partly due to the excellence of the harvest in this country which has reduced cereal imports and the end of payment for ships imported from Holland in October. There are indications, however, that the modest increase in industrial production is beginning to have effect on stocks and this is bound, in turn, to effect the level of imports.

An interesting feature of exports has been the sustained level of trade with the sterling area and the European Free Trade Association. In contrast, there has been no increase in exports to the European Common Market since the end of July. There is no disposition, as yet, however, to think that the lull in exports to the European Common Market is more than temporary.

#### TAX RELIEF ON AMERICAN DIVIDENDS

PLEA to British investors, especially those in Athe higher tax brackets, to be more double tax relief minded, is contained in an interesting and useful little booklet which has been compiled by an oldestablished firm of New York stockbrokers having a branch office in London. Its title is Double taxation relief on United States common shares for the private British investor, and it has two purposes. Large sums of money are lost every year by British investors owning American equities, because they do not appreciate the importance of claiming double tax relief or do not know how to claim it.

The first purpose of the booklet is therefore to give some general guidance and this it strikingly achieves; it would be a hard task to explain the subject more lucidly. The second purpose is to suggest to British investors in the higher tax brackets who require income as well as capital appreciation that they place a portion of their funds in United States equities in order to benefit from double tax relief; i.e. that double tax relief should be an element in their investment policy. This suggestion is backed up by some interesting and illuminating figures.

The booklet concludes with two warnings. The first is that one must keep a sense of proportion; double tax relief should not overshadow consideration of the intrinsic quality of a share proposed to be purchased. The second is that double tax relief cannot be expected to turn exiguous net yields into really generous returns. To us these two warnings serve to emphasize the restraint with which the main topic of the booklet is presented, and to emphasize its value.

#### REPORTS ON EUROPE

IF there is any one argument for future European co-operation it is the undoubted success of the post-war O.E.E.C., now known as the Organization for Economic Co-operation and Development. The flood of publications from this quarter on all aspects of the economic and social life of the member countries has reached the stage where it has been decided to publish a bi-monthly magazine entitled The O.E.C.D. Observer<sup>1</sup> to disseminate the essence of the vast flow of information on European affairs produced by the O.E.C.D. The first issue, dated November 15th, is devoted in the main to articles about the organization itself, but there are also articles on the roles of education and research in stimulating economic growth, as well as one on the future of the small firm in industry.

Employers may also be interested in a new pamphlet from H.M. Stationery Office entitled The Common Market in Action (price 6d net) which provides a brief account of the working of the E.E.C. constitution and the economy suitable for general distribution to their workpeople.

<sup>&</sup>lt;sup>1</sup> H.M.S.O. Price 3s per copy; 15s annual subscription.

#### This is My Life . . .

by An Industrious Accountant

#### CHAPTER 151

THERE was quite a display of enthusiasm around the boardroom table recently. The chairman had completed his memoirs at last; he had sent each of us a signed copy of the first typed version; more important, it was a really good effort. He was proud of his family name and the thriving business that had grown to prosperity under its protection. His heart had gone into his writing. After it's published in six months' time, he plans to decide definitely on his retirement date.

Six generations of his ancestors had guided our rise to success. They had faced and outfought laissez faire and Kruger, Kaiser Wilhelm and the hungry twenties, the depression and Hitler's war. They had survived the atrocities of a hundred years of Machiavellian politicians whom tact forbids me to name, though the chairman named them with some unparliamentary adjectives. Greatest achievement of all, they had survived Dorian.

The significance of Dorian lay in the faded brown photograph over the mantelpiece. It showed two handsome young men in Edwardian dress. One was serious, with deep-set eyes; that was Harry, the chairman's grandfather, who in stress and heartache had fought back from the verge of bankruptcy. The other, wavy-haired and laughing, was Dorian, grandfather's cousin.

They had found Harry bloody and dazed on the floor one morning. Dorian, whom he had caught redhanded rifling the safe, had struck him down with a heavy brass paperweight and fled with the contents. He had never been traced, and Harry had shouldered the burden unflinchingly. Prematurely aged, distraught with worries, living at fever pitch, he had slaved to win through to final success, before slumping down, dead of brain-fever, over that very table round which we now sat.

'Noblesse oblige,' said the chairman. 'It's the best who pay dearest.' He had devoted a chapter to his grandfather's great struggle and his eyes shone proudly. A nation of shopkeepers had built an industrial empire; his family had played its part. Their portraits looked down on us. In cravats and good broadcloth, in the khaki of Colenso and Mons and Normandy, in morning dress or in lounge suit, they lined the walls. 'Never a black sheep but Dorian,' said our chief, 'Good men all.'

There was surely an element of wishful thinking in his judgement, I reflected. While their faces had been composed in appropriately noble or pensive lines before being immortalized for posterity, their thoughts were not for us to decipher. Especially when dundrearies or Kitchener moustaches masked the revealing shapes of mouth and chin. Two of our present directors, for long rivals for succession to the chairman's mantle, were looking positively saintly as they listened to him. (As both are known to have had occasional lapses from perfection, their expressions were possibly deceptive. I hope history doesn't repeat itself.)

Just then an urgent message came from the construction engineer in charge of our rebuilding asking could the directors please come at once. In some surprise they trooped down to join him in the dusty rubble of a demolished showroom, long disused, at the base of the new wing. The workmen were clustered excitedly around some broken crimson panelling disclosed by the removal of an inner wall. They'd found something. From behind a crumbling panel protruded a skeleton hand. The forgotten priest's hole held the huddled remains of a man.

We stood around, directors, staff, builders, musing quietly on the ancient tragedy. Beside mouldering papers in tattered remnants of clothing someone's dry bones had lain hidden for years. Had it been one of our own employees, a customer, a private enemy? What was the secret? Who had walled up the niche? The chairman was agog. Mentally, he was drafting another chapter to his memoirs; a skeleton didn't rank with a family ghost for drama, naturally, but still the mystery was tantalizing.

The managing director, down on one knee, lifted the yellowed skull gently. The sight of its shattered base was curiously shocking. With tightened lips he felt again in the shadows . . . blackened coins, rags, a corroded pen . . . a gold watch, its glass smashed.

I think that we all felt a premonitory, nameless, chill as with deft fingers and a borrowed penknife, he prised open the double back casing of the watch. For a spasmodic moment his hand clenched as if to hide it, and his jaw dropped. Above him the chairman was suddenly white. But with rigid chin and straightened back he stretched out a hand that showed no tremor, and his voice didn't falter as he read the inscription inside the tarnished gold cover: "To Dorian, on his twenty-first birthday."

No one spoke. We knew now who had rifled the old steel safe, who had swung the heavy brass paperweight. We sensed why Harry had aged so rapidly, with the furies of guilt and remorse racking him night and day, with his murdered cousin's blood tainting his dividends. The chairman handed back the watch carefully.

"That chapter about Harry's shock-tactics needs some revision, apparently,' he said quietly. 'I must trace poor Dorian's relations immediately, before I resign at next month's board meeting.'

#### Reviews

#### The Development of the British Economy 1914–1950

by Sidney Pollard. (Edward Arnold (Publishers) Ltd, London. 30s net.)

This is a serious and substantial piece of writing, well documented and well put together, covering the most important era in British economic and social development. Dr Pollard does not weary his readers with a long chronological account of events, rather he seeks to show the evolution of modern society through the growth of the Welfare State, a paternalistic Government in economic affairs, the rise and fall of staple industries and the struggle for full employment.

Intended primarily for the undergraduate in history and economics, it will certainly interest many whose lives have spanned in whole or in part the events of these years and who wish to see those years in perspective. This book deserves a wide readership and the publishers are to be congratulated on its excellent production at so modest a price.

#### The Preparation of the Accounts of Trustees and Liquidators

by W. J. FAIRBAIRN, C.A.(S.A.), F.S.A.A. (Juta & Co Ltd, Cape Town. R2.85.)

The number of useful books illustrating accounting methods, other than at a very elementary level, is distressingly few. For this, if for no other reason, Professor Fairbairn's book is most welcome.

As the title suggests, it deals with the accounts of trustees in bankruptcy, liquidators and executors of insolvent estates. The illustrations are both extensive and detailed and are preceded by a careful exposition of the relevant provisions of the law. There are also a number of obviously well thought out examples which are keyed to the text.

Although this must, without doubt, be a satisfactory addition to any accounting library, its use to readers in the United Kingdom will be rather restricted by the fact that the book is keyed to South African law (Professor Fairbairn is Professor of Accounting and Auditing at the University of Natal). Although the laws of the two countries are not entirely dissimilar, there are sufficient differences to render the book unsuitable for the student in Britain and somewhat confusing to the British practitioner.

Marginal legal differences, together with unfamiliar currencies and jargon, are a barrier to the wider circulation of any number of useful books written in the various English-speaking countries. It is a pity that adaptations are not made of selected works (the conversion into, say, British usage could often be quite easily effected) with a view to enlarging the number of books available to practitioners and students.

#### Lindley on the Law of Partnership

Twelfth edition by ERNEST H. SCAMELL, LL.M., Barrister-at-law. (Sweet & Maxwell Ltd, London. £,10 net.)

Lindley is now over one hundred years old, eleven years having passed since the eleventh edition was published. Besides bringing the work up to date, Mr Scamell has made many improvements. In particular he has added a further part headed 'Taxation in relation to partnerships', covering twenty-four pages. It consists of two chapters, one on income tax and the other on estate duty.

Partnership shares have presented some baffling problems in relation to estate duty, and the book goes very thoroughly into them. The chapter on income tax explains such matters as basis of assessment, apportionment of the tax, cessations and partnership changes, and the tests which the Revenue imposes in order to decide whether a partnership exists or not. The editor makes good use of income tax cases in his discussion of the general aspects of this and other topics.

Despite the modest disclaimer in the preface, the new editor worthily upholds the esteem in which Lindley is held in Lincoln's Inn and elsewhere. The publishers have improved the appearance of the book and its printing. The new Lindley may not answer all the questions about partnership law, though this reviewer is unable to think of any which are not covered.

#### The Limits of Business Administration and Responsibility

by G. Prys Williams, M.B.E., B.COM., F.I.S. (Pall Mall Press Ltd, Dunmow, Essex. 30s net.)

Written by a university teacher in statistics and economics who has spent much of his life in business, this book, sponsored by the Christian Economic and Social Research Foundation, is quite unusual.

It does not, as the title might suggest, deal with the conventional topics in treatises on management, but discusses instead the broader, one might say philosophic, questions. The author is concerned, for example, with the public image of big business, the very real problem of ensuring an efficient link between the board and executive management so that controlling power is efficiently and equitably exercised, and the responsibilities of industry to shareholders and the Government. There is much of interest in this book, but some readers may find its message conveyed at rather too great a length.

#### Investments

Third edition by George W. Dowrie, Ph.D., Douglas R. Fuller, Ph.D., and Francis J. Calkins, Ph.D. (John Wiley & Sons Ltd, London. 72s net.)

This is a standard American text by authors who combine academic with practical qualifications. It is intended primarily for college undergraduates taking

the highly-specialized and often very good courses in business training, as well as those working in financial institutions who wish to broaden their horizons.

Its content is conventional, discussing the nature and practice of investment, financial statements and their interpretation, and the various investment guides and criteria evolved to minimize losses and maximize gains. From the viewpoint of the prospective British reader, this book suffers from the fact that it is based upon American law and practice, but on the other hand, it is an excellent exposition of a subject which is as important in the United Kingdom as across the Atlantic.

For those concerned with investment, there is much to be said for looking at the subject through the eyes of their American counterparts.

#### SHORTER NOTICES

A Theory of Accounting to Investors, by George J. Staubus. (California University Press; London: Cambridge University Press. 32s net.) This American study by a University don is not intended so much for the average practitioner immersed in his day-to-day problems, as for the fellow academic or accountant with an interest in the wider functions of accounting reports, or economists seeking to integrate accountancy with their own subject. The latter will find that Mr Staubus has much of interest to say on the nature of the accounts required by the investor and not least upon the problems involved in trying to meet those needs.

THE COMPLETE GUIDE TO PERSONAL INVESTMENT, by P. J. Naish. (Evans Brothers Ltd, London. 30s net.) This is primarily a book for the man who has saved his first few hundred pounds of free capital and is contemplating a plunge into Throgmorton Street. It discusses the various types of share and investment as well as summarizing the leaders in the main markets, and provides clear and simple accounts of the basis of modern published accounts and other activities such as take-over bids and investment techniques. Bank managers and accountants could recommend this book to prospective investors among their clients.

#### RECENT PUBLICATIONS

COST AND BUDGET ANALYSIS, by John Dearden. xii+205 pp. 9½×6½. 36s. Prentice-Hall International Inc., London.

MARKETING FOR PROFIT, by Leonard Hardy. xv+168 pp. 9×6. 18s net. Longmans, Green & Co Ltd, London.

THE PRINCIPLES OF COMPANY LAW, seventh edition, by O. Griffiths, M.A., LL.B., and E. Miles Taylor, F.C.A. xxiv+589 pp. 9×6½. 25s. Textbooks Ltd, 5 Arden Grove, Harpenden.

THE PRINCIPLES OF ENGLISH LAW, second edition, by The 'B.C.A.' Tutors. xxi+285 pp. 16s. Textbooks Ltd, 5 Arden Grove, Harpenden.

THE 1962 INCOME TAX LEGISLATION, by Dr A. S. Silke, M.COM.(FIRST-CLASS HONS.), PH.D.(CAPE TOWN), C.A.(S.A.), A.S.A.A. xiii+769 pp. 10×6. Card covers. £3 12s 6d. Juta & Co Ltd, South Africa: Sweet & Maxwell Ltd, London.

Fundamentals of Economics, by R. J. Barnes, B.com., A.C.I.S., A.M.B.I.M. xi+199 pp. 9×6. 15s. Postage 1s 2d extra. Butterworth & Co (Publishers) Ltd, London

Three-year Digest of Income Tax Cases Classified 1959–1961. In continuation of Butterworths Income Tax Digest. Edited by Philip F. Skottowe, Ll.B. 82 pp. 10×7½. Card covers. 15s. Postage 1s extra. Combined with Butterworths Income Tax Digest, 85s; postage 2s 9d extra. Butterworth & Co (Publishers) Ltd, London.

EXTR. Butterworth & Co (Publishers) Ltd, London. TERMINOLOGY FOR ACCOUNTANTS, A project sponsored by the Committee on Accounting and Auditing Research of The Canadian Institute of Chartered Accountants. v + 72 pp. 9½ × 6½. \$3. The Canadian Institute of Chartered Accountants, 69 Bloor Street East, Toronto 5. BUTTERWORTHS INCOME TAX HANDBOOK, being the amended text of the Income Tax Acts as operative during 1962–63. Edited by Butterworths Legal Editorial Staff. vi+579 pp. 10×6½. One copy 32s 6d net; two or three copies 30s each; four to eleven copies 27s 6d each; twelve or over 25s each. Postage free. Butterworth & Co (Publishers) Ltd, London.

# Finance and Commerce

#### Overloaded System

UR reprint this week features the accounts of Associated British Foods Ltd for the year to March 31st, 1962 – which may or may not present a 'true and fair view'. Mr W. Garfield Weston, the chairman, explains that this is an unfortunate result of a fast rate of expansion.

A.B.F. has wide interests in milling and bakeries (Sunblest bread), in grocery and in other directions associated with the 'table'. The retail grocery division which includes Coopers' Stores, Joseph Burton, the Fine Fare supermarkets, and others, is handled through Howardsgate Holdings Ltd and the annual report explains that 'considerable overloading of the accounting system' has been caused by 'swift expansion in our retail grocery business'.

Dealing with this point and with the decline in Howardsgate profits, the chairman says: 'We are attempting to do in a few years in this company what has taken the supermarket companies in North America forty years of trial, error and heartbreak to accomplish. These figures reflect the cost of opening the unprecedented number of eighty supermarkets during the year. But', he adds, 'the directors believe that this price in terms of fall in present profit . . . is a small price indeed to pay for the future prosperity of the company.'

#### Auditors' Report

In the course of this expansion, 'exacting demands were made on the accounting side of the business' and this, says Mr Weston, led to a number of difficulties which were more severe than was appreciated

Chartered Accountants.

THOMSON MELINTOCK & CO.

at the time. When it was found impossible to prepare accounts as at March 31st, 1962, that would satisfy the Howar gate auditors, the directors decided not to delay further the preparation of the group accounts and they asked for the Howardsgate accounts to be completed 'fully realizing that their auditors could only give a qualified report'. The A.B.F. directors' report says the amount of profits thus subject to qualification is 'relatively small' and the effect on total group profits should not be emphasized.

The report of the auditors of Associated British is included in the reprint. Note 2, to which the auditors refer, brings forward to Associated view a note in the Howardsgate accounts which is also included in the reprint. This refers to the 'accounting difficulties' connected with 'the increased volume of transactions and the allocation thereof between the individual companies in the (Howardsgate)

Group'.

These difficulties have still to be overcome and adjustments may be necessary in creditors and stocks which 'may have a material effect on the amount shown as profit for the year and the provisions for taxation thereon'. The figures in question can be seen in Note 2.

#### Votes

Mr Weston also touches on a very topical point in this age of supermarkets. 'It has been said', he remarks, 'that the big supermarket chains have an unfair advantage over the independent trader by reason of their greater buying power.' He asserts, however, that through the A.B.F. wholesale 'Cash and Carry' stores, the group is 'doing more for the private and independent grocer than any other organization in the country' for the independent grocer can through them buy 'all his supplies on just as favourable terms as can the multiples, and with no strings attached to his freedom'.

Associated British, Mr Weston also records, was the first company to give votes to non-voting share-holders without any question of

# ASSOCIATED BRITISH FOODS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

THE YEAR ENDED 31st MARCH, 1962

# TO THE MEMBERS OF ASSOCIATED BRITISH FOODS LIMITED

REPORT OF THE AUDITORS

WE have audited the books and accounts of the company for the year ended 31st March, 1962, and have obtained all the information and explanations that we considered necessary. Proper sooks of account have been kept and the balance sheet on page [826] is in agreement therewith.

The said balance sheet gives the information required by the Companies Act, 1948, and in our opinion gives a true and fair view of the state of the company's affairs as at 31st March, 1962.

We have examined the audited accounts of the company's subsidiaries, some of which have been audited by other professional firms. The auditors of Howardsgate Holdings Limited, reporting on the consolidated accounts of the Howardsgate group, stated that in the circumstances indicated in note 2 (which appears on page [827]) adequate accounting records for that group were not maintained and that they were not able to obtained the information and explanations necessary to confirm the amounts included in the group balance sheet for stock and for creditors. They were, therefore, unable to state that in their opinion the consolidated accounts of the Howardsgate group gave a true and fair view of the state of affairs as at 31st March, 1962, and of the results for the year ended

The consolidated balance sheet on page [326] and the consolidated profit and loss account [opposite] have been prepared in accordance with the provisions of the said Act from the audited accounts of the company and its subsidiaries. Subject to the comment above in respect of the Howards-gate group, these consolidated accounts give, in our opinion, a true and fair view of the state of affairs, as at 31st March, 1962, and of the profit for the year ended on that date, of the company and the enhalted as a sinale independent.

2th November, 1962,

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PROFIT AFTER TAXATION ... Less: Profit applicable to minority interests

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PROFIT BEFORE TAXATION . Less: United Kingdom taxation (note 3): Income tax

Profits tax .. Overseas taxation

GROUP PROFIT (notes 1 and 2) Less: Depreciation (note 1)

The notes referred to above appear on page [827].

856,000 2,164,000

Preference dividends, less income tax Ordinary dividends of 22½ per cent., less income tax (note 4)

PROFITS RETAINED IN THE BUSINESS note 5)
Written off goodwill and costs of acquisition Added to revenue surplus

DIVIDENDS OF ASSOCIATED BRITISH FOODS LIMITED

APPLICATION OF PROFITS

compensation being given to the voting shareholders for loss of their entrenched rights.

This matter of 'votes for all' is one of the leading questions of the day in the compar, world. Mecca, for instance, following a share-holder's representation at their last annual meeting, is understood to have voting rights under consideration. But Mecca shares, with votes, stand in the market at 55s, and without votes at 34s. Some compensation to the present voters seems necessary.

How to compensate might well be a point for discussion among accountants.

#### **Property Values**

THESE are days when the rising value of property is a matter of nation-wide concern and one can sense what was in the mind of the shareholder who asked a question on property values at the annual meeting of Claude Rye Ltd, the motor agency. The consolidated balance sheet at June 30th, 1962, shows freehold and leasehold properties at a cost of £216,731, less £15,100 for total depreciation, leaving the net figure at £201,631.

What were the separate figures for freeholds and the leaseholds? the shareholder wanted to know, and When was the last valuation? It is not always possible to satisfy at once every query at a company meeting and such was the case in this instance. The separate figures were not available. It transpired, however, that there had been a recent valuation and that it showed values considerably over cost. Which left the shareholder to interpret 'considerably' as he might.

Shareholders have every right to ask questions like this and published accounts – or notes with them – should be drafted so as to anticipate them. It may not be an appropriate time for any particular company to incorporate current values into its balance sheet, but it obviously adds to the value of a balance sheet if the facts of a valuation are given in a note to the item. And we have suggested before that the valuation for fire insurance purposes is better than nothing.

# OCIATED BRITISH FOODS LIMITED AND SUBSIDIARY COMPANIES CONSOLIDATED BALANCE SHEET AS AT 31st MARCH, 1962

	1961		1961
ISSUED SHARE CAPITAL OF ASSOCIATED BRITISH FOODS LTD.	<b>ધા</b> ધા	FIXED ASSETS (note 10) Cost or Depreciation	<b>4</b>
6 per cent. cumulative preference shares of £1 2,613,038 each Ordinary shares of 1/- each 13360,542	2,613,038	Land and buildings 30,424,000 2,425,000 27,999,000 Plant and equipment 38,708,000 18,256,000 20,452,000 Deliver equipment 11,215,000 7,124,000 4,091,000	23,978,000 15,469,000 3,591,000
15,974,000	14,952,000	£80,347,000 £27,805,000	43.038.000
CAPITAL RESERVES (note 6) 6,951,000	3,613,000	•	
REVENUE SURPLUS (note 7) 10,786,000	8,622,000	Deposits on account of capital expenditure	1.941,000
33,711,000	27,187,000	, M	44,979,000
MINORITY INTERESTS IN SUBSIDIARI COMPANIES	3,888,000	GOODWILL at cost, less amounts written off [1000.000]	000,000,1
FUTURE TAXATION (note 3) 3,674,000	3,776,000		
(note 8)		(£250,000) (note 12) 2,103,000	000'669
Mortgage debentures and secured loans 1,159,000	5,000,000	58,194,000	46,618,000
6½ per cent. debenture stock 1981/86 6,000,000 12,159,000	5,641,000		000 000
DEFERRED CAPITAL PAYMENTS (note 9) 3,468,000	3,337,000	Sectors at of under cost (from 2)	
CURBENT LIABILITIES			18,194,000
Creditors and provisions (note 2) 13,720,000 Current taxation   1,678,000 Bank advances (secured £323,000) 2,763,000 Short-term advances   1,258,000	12,001,000 1,353,000 5,182,000 1,289,000		
Due to holding company (George Weston 4,538,000 Holdings Ltd.)	213.000 945.000 20,983,000	-	
£82,896,000	664,812,000	£32,896,000	£64,812,000
•			
	The notes referred	The notes referred to above appear on page [92.7]	7
1	<b>1</b>		, (

786,000

### ACCOUNTANT

## NOTES FORMING PART OF THE ACCOUNTS

<u>-</u> :	1. GROUP PROFIT is subject to note 2 and is stated after:	1965	1961
	Crediting— Income from trade investments	100,000	84,000
	Interest: debentures and fixed loans	645,000	331,000
	Auditors' remuneration: Associated British Foods Limited	585 586 586 586 586 586 586 586 586 586	200 200 200 200 200 200 200 200 200 200
	· 🏊	752,000	642,000
	Fees, including £55 £6800 received from subsidiaries	000*1	000'1
	Precived from holding company Pensions to past executive directors	7,000	39,000

Depreciation:
The group changed its method of calculating depreciation from the beginning of the year. Under the new method the charge for the year is £4,626,000: under the previous method the charge would have been £5,120,000.

### HOWARDSGATE GROUP

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The following note formed part of the accounts of Howardsgate Holdings Ltd, and its subsidiary

companies (the Howardsgate group). "As a result of the rapid enlargement of the group during the year accounting difficulties were experienced in dealing with the increased volume of transactions and the allocation thereof between the individual companies in the group.
These difficulties have not yet been overcome but steps have been taken towards that end.
While the annexed accounts have been prepared according to the best information at present
wailable to the directors, adjustments may therefore become necessary in the light of further

information with respect to:

(a) 'trade creditors, less payments on account and deposits with suppliers' shown at £5,698,670

(b) stocks totalinites, [41.84,400 of certain subsidiaries. It is total distributions as an excessary they may have a material effect on the amount shown as profit for the year and the provisions for taxidion thereon.

The profits included in the consolidated profit and loss account in respect of the Howardsgate group are as follows:

19/0961	1,420,000	6863,000	-
1961/62	1,287,000	£529,000	
	: :	:	
	: :	:	
	: :	: :	
	: :	: :	
	: :	:	
	: :	:	
	: :	:	
•	Group profit	Profit before taxation	

### TAXATION

United Kingdom taxation has been provided on all profits earned up to the date of the accounts. No provision has been made for United Kingdom taxation on profits of overseas subsidiaries not remitted to this country.

The charge for the year has been computed after deducting investment allowances, the benefit of which is £892,000 (1961 £597,000) and crediting £143,000 (1961 credit of £118,000) for taxation equalisation provisions.

With the balance of £393,000 brought forward from last year and the credit of £143,000, the total equalisation provisions included in future taxation amount to £250,000.

### ORDINARY DIVIDENDS:

÷

758,000 .. 1,025,000 Interim dividend of 10 per cent., less income tax, paid on 247,417,448 shares of 1/each Interim dividend of 124 per cent., less income tax, payable on 267,713,343 shares of

—(continued)
ACCOUNTS
OF THE
PART
FORMING
NOTES

C

3

ASSOCIATED BRITISH FOODS LIMITED

•

0 0			
753,000 945,000	£1,698,000	1961	846,000 1,708,000
:	•		-
Last year dividends were paid as follows: Inverim dividend of 10 per cent., less income tax, paid on 49,217,090 shares of 51-each Inverim dividend of 124 per cent., less income tax, payable on 246,775,450 shares of 11- each		Group	856,000 2,164,000
26.7			
49,217 Ile on 24		1961	47,000 984,000
id or ayab		-	· ·
οά. Α		Ц	
e tax		È	63,000 26,000
ows: incom s inco		Сотрапу	sets of 63,000
foll less . less		٠	·
ent., cent.		_	Written off goodwill and costs of acquisition
Port.		=	8.
12.2 12.2 13.0 14.0 15.0 15.0 15.0 15.0 15.0 15.0 15.0 15			l and
d of ends		SS:	dwill ie su
dyid iden iden			goo" L
9 5 5 5 6 6 5 6 6 5		PROFITS RETAIL THE BUSINESS:	Written off goodwill and acquisition
terim terim each		に四	eduis eduis
355		PROFITS RETAINED IN THE BUSINESS:	Å <sub>a</sub> ×
		r,	

Company	3 1961	Group	3 1961
63,000	47,000 984,000	856,000 2,164,000	846,00 1,708,00
£1,489,000	€1,031,000	£3,020,000	22,554,00

£2,554,000	£3,020,000	£1,031,000	90,
000 111	900 000 53	000 100 13	2

CAPITAL RESERVES:			Company	Group
Previous balances (including share premium account £1,919,000) Add: premium on issue of ordinary shares	(000 <u>,</u>	:::	3,050,000 3,306,000	3,613,000 3,306,000 196,000
Less: discount and expenses on issue of debentures	:	•	6,356,000	7,115,000
Balances (including share premium account £5,061,000)	:	;	£6,192,000	000'156'93

	Balances (including share premium account £5,061,000)	includi	ng sha	re pren	nium a	ccount	190'53	(000'	:	;	£6,192,000 £6,951,000	000'156'97	
~	REVENUE SURPLUS:	JE SU	IRPL	US:							Company	Group	
	Previous balances	alance	:	:	:	:	:	:	:	:	5,252,000	8,622,000	
	Add: Irom	profit	10 to	e year	:	:	:	:	:	:	1,426,000	2,164,000	
	Balances	:	:	:	:	:	:	:	:	:	£6,678,000	£6,678,000 £10.786,000	

## DEBENTURES AND LOANS:

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Some of the group's assets have been charged as security for the debentures and loans.

## DEFERRED CAPITAL PAYMENTS:

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Deferred capital payments which arise from the acquisition of certain subsidiary companies are, by agreements, payable by instalments over periods of 1-8 years. FIXED ASSETS:

₫

Land and buildings are shown at the amount of professional valuations as at 1st April, 1956, or at the dates of acquisition in the case of subsidiaries subsequently acquired, plus additions at cost and less depreciation from the dates of valuation or later addition. Other fixed assets are shown at cost less depreciation.

- There are commitments for capital expenditure by the company and its subsidiaries to the extent of approximately £5,500,000, for which no provision has been made in these accounts. ≓ ᅼ
  - Trade investments include £536,000 in respect of an investment in a company which is a subsidiary company within the meaning of the Companies Act, 1948, but since the group does not have voting control and does not participate in the management of the company, the investment has been treated in the accounts as a trade investment.
- The accounts of certain home and overseas subsidiaries have been made up to dates other than 31st March, 1962. In the case of home subsidiaries the conditions of trading make it undesirable to adopt the holding company's accounting date.

⋍

£1,783,000

Assets and liabilities abroad have been converted into sterling at the official rates of exchange at 31st March, 1962. ₹

### CITY NOTES

THE middle week of a Christmas three-week account is not the best of times at which to attempt to gauge the temper of the stock-market but there is, amongst leading London stockbrokers, a tendency to view the equity prospect with markedly less optimism than was displayed two months back when share prices began to rally.

Most brokers are now taking the view that more concrete evidence of industrial and economic recovery is needed before any further improvement in equity prices can be justified. There is scope, it is admitted, in individual shares under special influences and circumstances; but the prospect of the equity market as a whole is not considered to be particularly inspiring.

A number of company chairman, particularly in the engineering industry, have said that there has so far been little if any indication of better business conditions and that it may be late spring before there is any reflection of Government economic re-expansion policies in terms of new orders. If that proves to be the case then in such companies the prospect of higher earnings is bleak.

The equity market can and does advance on sentiment but sentiment needs reinforcement by fact if the advance is to be maintained. Lack of evidence of industrial recovery is currently checking the market and, with new issues providing severe competition, prices of established shares are slipping back.

### RATES AND PRICES

Closing prices, Tuesday, December 18th, 1962

Tax Reserve Certificates: (interest rate) 25.8.62 21%

The reserve commences.	(Hitterest rate) 25 0 02 2g/6
Bank :	#2
Oct. 27, 1960 $5\frac{1}{2}\%$	Nov. 2, 1961 6%
Dec. 8, 1960 5%	Mar. 8, 1962 5½%
July 26, 1961 7%	Mar. 22, 1962 5%
Oct. 5, 1961 6½%	Mar. 22, 1962 5% April 26, 1962 4½%
02/0	11p111 20, 1902 - 42,70
Treasur	ry Bills
Oct. 12 £3 12s 3.07d%	Nov. 16 £3 15s 11.09d%
Oct. 19 £3 145 8.22d%	Nov. 23 £3 14s 9.03d%
Oct. 26 £3 178 2.03d%	Nov. 30 £3 138 9.47d%
Nov. 2 £3 16s 11.48d%	Dec. 7 £3 13s 9.66d%
Nov. 9 £3 17s 1.60d%	Dec. 14 £3 128 4.31d%
23 -70 - 000 76	200.14 23 140 4 310/0
Money	Rates
Day to day 2-33%	Bank Bills
7 days 23-37%	2 months 3 18 - 37 %
Fine Trade Bills	3 months 3 13 - 3 7 %
3 months 5½-6%	4 months 3 13 - 3 7 %
4 months 5½ 6%	6 months 3 18 -3 18 %
6 months 52-61%	0 months 3 16 3 16 70
54-02/0	
Foreign E	xchanges
New York 2.80 13	Frankfurt 11.18½
Montreal 3.012	Milan 17404
Amsterdam 10.08½	Oslo 20.02‡
37 334	
Copenhagen 19.33	Zürich 12·10
Gilt-e	dged
Consols 4% 69#	Funding 3% 59-69 90½ \
Consols 2½% 44½	Savings 3% 60-70 878
Convision 5½% 1974 100½	Savings 3 % 65-75 811
Convision 54/0 19/4 1004	Savings 3 /0 05 - /5 015.
Conv'sion 5% 1971 987xd	Savings 2½% 64-67 91¾
Conversion 31% 1969 927	Treas'ry 51 % 2008-12 9818
Conversion 3½% 60½	Treasury 5% 86-89 923
Exchequer 5½% 1966 102 18	Treasury 31% 77-80 793
F'ding 5½% 82-84 99½ xd	Treasury 31 % 79-81 793
Funding 4% 60–90 94#	Treasury 2½% 44½
Funding 3½% 99-04 68½	Victory 4% 978
Funding 3% 66-68 92	War Loan 3½% 60§
	-

### Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

### Internal Control with a Computer

SIR, - Referring to the recent article (November 3rd issue) and correspondence (November 17th issue) discussing the redundancy or parity checking feature of computer hardware, it is important to realize that this checking applies to data transfers only.

There are, however, other data manipulations

occurring within a processor which are not subject to parity checking. Translation of card code to machine code, and translation of machine code to card code are not checked. The arithmetic operations are not readily susceptible to this form of check. Perhaps most important of all, no parity check is made of the translation of internally stored instructions into bit patterns used to initiate and control the operations of computers.

Since parity checking is usually, therefore, confined to data transfers and is not applied to the other equally important data manipulations, the question may well be asked, Why is it used at all? The answer lies in the design of specific memories and their characteristics.

In the never-ending quest for higher speeds at lower costs, competitive pressures force engineers to operate memories at nearly their maximum speed capacity, allowing little safety margin. Also, as

memories grow in size to hundreds of thousands of bits, an increase in 'cross talk' and distortion of signal wave form occurs with consequent decrease in reliability. The possibility of unreliable operation are prevails under these circumstances frequently makes redundancy checks desirable, if not necessary.

It should be noted that parity checking may ease the pain of unreliable operation but it provides no cure for it. To quote Dr Shennum, of Bell Telephone Laboratories, in describing the lack of redundancy checking in the design philosophy of the "Telstar' satellite: 'In my opinion, redundancy is merely a crutch . . . can create problems in itself. If it is a good system with high reliability, it is better off without redundancy.'

I mention the above points not to confuse your readers, but rather to plead for a common-sense approach to data processing by the accountant.

In particular, this approach should be completely free from an unhealthy and often dangerous fascination with remote technical characteristics of specific items of hardware.

Yours faithfully, T. E. HOOLEY, F.C.A., A.C.W.A.

Montreal, Canada.

### Tax Relief on Pension Fund Payments

SIR, – I wish to draw the attention of your readers to the following statement of XY Co Ltd and in particular the item pension fund reserve. I would respectfully ask them to express their views on my argument, and if there is any case law on the subject I should be indebted to them if the case could be quoted.

				£
Trading profit		• • •		300,000
Deduct Depreciation				50,000
Profits tax				30,000
Income tax	• •	• •	• •	85,000
Net profit				135,000
Add balance brought	forv	vard		65,000
Available				200,000
Proposed appropriation	s:			
General reserve				65,000
Pension fund reserve	• •			15,000
Dividends (net):				
Preference shares				5,000
Ordinary shares				55,000
Balance carried forward	ĺ	• •	••	£60,000

It will be noted that the amount appropriated to

pension fund reserve (later voted by the shareholders in general meeting) is out of net profits.

This reserve was made to enable the company to make to the trustees of the pension fund, payments which may or may not receive tax relief.

Subsequently the legal agreement between the company and the trustees and the rule alterations implementing the arrangement were approved by the Inland Revenue and the first of the annual instalments of the payment made.

In consequence the Inland Revenue, on the understanding that the payment shall be made in ten annual instalments, directed that, under section 379 of the Finance Act of 1952, tax relief would be allowed on each of the instalments as and when they became due.

My point is that the tax relief ought to revert to the pension fund reserve and not be used to reduce the annual taxation amount of those years.

In other words the resolution 'that £15,000 shall be placed to pension fund reserve' really was, by implication, the provision being made out of *taxed* profits, 'that £15,000 shall be placed to pension fund reserve *together* with any tax relief which may be obtained in respect of the payment'.

My argument for this is that the shareholders who passed the resolution had suffered income tax and profits tax at the time of the allocation and it was not their intention that subsequent shareholders should benefit by any tax relief which might arise out of the payment.

Yours faithfully,

A. J. HARRIS.

Shelton, Stoke-on-Trent.

### **Examination Fees**

SIR, – My fellow articled clerks must be at least a little disappointed at seeing the revised examination fees of the Institute of Chartered Accountants in your issue of November 17th. I do not wish to disagree with the raising of these fees, as I have not seen accounts relating to the expenses of holding examinations, but I object most strongly to the fee of £6 6s for the obtaining of a 'certificate of exemption from Preliminary examination'. Apparently all the work involved in supplying this item is the mere inspection of one's School Certificate and the printing of a letter acknowledging exemption.

Surely it will only discourage school leavers from becoming articled clerks on being confronted with this first expense at the commencement of a penurious five years of articled service.

Yours faithfully,

J. H. REYNOLDS.

Nantgaredig, Carmarthen.

### Taxation (

A full report of the case summarized in this column will be published, with a Note on the Judgment, in the 'Annotated Tax Cases'.

### Wickwar v. Berry

In the High Court of Justice (Chancery Division) November 7th, 1962

(Before Mr Justice Ungoed-Thomas)

Income tax - Payment for purposes of technical education - Farmer - Sons at agricultural institute -Whether fees paid were for purposes of technical education - Income Tax Act, 1952, sections 137 (a), (b), 140, 212.

The respondent, a farmer, employed two of his sons full-time in his farming business. Later they went to the Institute of Agriculture and there took a full-time certificated course in agriculture. The Institute of Agriculture was an approved technical college for the purposes of section 140 of the Income Tax Act, 1952. During the holidays the sons worke full-time on the farm at normal wages.

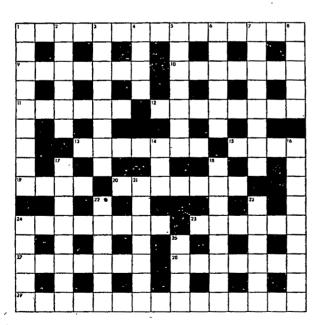
There was no evidence as to whether the fees paid by the respondent were earmarked for the maintenance of the educational courses provided by the Institute, or whether they were used for the general purposes of the Institute, but the Special Commissioners inferred that the latter was the case.

The respondent contended that the fees paid by him were deductible as expenses of his farming business. It was contended on behalf of the appellant that the respondent made a commercial return for the fees he paid and that therefore they were not deductible for tax purposes. The Special Commissi sioners decided in favour of the respondent.

Held: the payments were for the purposes of technical education, and were deductible in computing the amount of the Case I assessment on the respondent.

### CROSSWORD for CHRISTMAS

Compiled by Kenneth Trickett, F.C.A.



### **CLUES ACROSS**

- 1. Presents an odd style of vest for visiting (5, 5, 5)
- 9. Increase the Leeds registration people are in at (7).
- 10. Book the amount set aside (7).
- 11. Fair C.A. gets confused here (6),
- 12. Kind of interest defined in section 273, Income Tax Act, 1952 (8).

- 13. This may be mitigated under section 500, Income Tax Act, 1952 (7).
- 15. Customary tax in the north (4).
- 19. Government regulation (4).
- 20. Project to raid a bank (5, 2).
- 24. Enacted laws can make us attest (8).
- 25. Removal to a higher Court is attractive (6).
- 27. Confidential kind of company (7). 28. Not accurate in former legislation (7).
- 29. Privilege of executor to wreck the ore freight train (5, 2, 8).

### **CLUES DOWN**

- 1. Conveyor containing two letters as surety (9).
- 2. Illustration to calculate the amount (6).
- 3. Addresses, after dinner perhaps (8).
- 4. Characteristic paper money turns the school upsidedown (4).
- Serious art seen in the form of token money (7).
- 6. Secured legally, not contingent (6).
- 7. Disagreement in cost accounting or statistical theory
- 8. Accountants often balance on this newspaper (5).
- 14. One follows the French for Romanian monetary units (3).
- 16. It produces sets of figures, and some typewriters have it (9).
- 17. Vindicating the bankers' method of settlement (8).
- 18. Bid to smash a bus open results in writ commanding attendance in Court (8).
- 21. Legal expression of that slight alteration to the roof (7).
- 22. Directed in projection taking an oath (6).
- 23. Possibly tie and keep in custody (6).24. An excellent name for an old tax (5).
- 26. An excellent 13 (4).

### NOTTINGHAM CHARTERED ACCOUNTANT STUDENTS' DINNER

### IMPORTANCE OF OUTSIDE INTERESTS

Students should take care to have interests outside their studies, said Mr B. W. Sutherland, F.C.A., at the annual dinner of The Nottingham Chartered Accountant Students' Society at the George Hotel, Nottingham, on December 12th.

Mr Sutherland, a Midlands hockey enthusiast, was commenting on the fact that two county hockey players had received Howitt Prizes for examination success in recent years. They were Richard Turton, T Nottingham, and Chris Rainsford, of Derby, who had both played for their respective county teams.

'I think it is most important that students should develop other interests outside their studies' he said. "Too much concentrated study can be very dangerous,"

Mr Sutherland, who was responding to the toast of 'The Guests', recalled how for two years he had been secretary of the Nottingham Society. "They were among the happiest years of my life and gave me a great deal of pleasure', he commented.

He urged all students to take an active interest in their society. If they did, they would get a great deal out of it and make friends who would stand them in good stead for the rest of their lives.

### **High Standing**

The toast of 'The Institute of Chartered Accountants in England and Wales' was proposed by Canon B. W. Woodhams, B.A., L.TH., Vicar of St Jude's Church, Nottingham. He said that he regarded the entrustment to him of the toast as a very high privilege. "The Institute has such a high standing in public life that it is obviously a great honour to be able to propose this toast,' he declared.

At the same time, Canon Woodhams confessed surprise at the fact that he should be chosen for the task. "The calling in of the Church usually means that you are at the end of everything,' he said amid laughter.

He was also surprised because all parsons, himself included, knew nothing whatsoever about accountancy or mathematics.

'It is entrusted to us in our work to get the money in. Once the money is in it is our ambition to hand it over to some person like you to look after it for us.

The Canon recalled that when he was working in the East End of London the people there had never heard of a chartered accountant.

There, they employed as their treasurer a man who was a lock keeper on the Grand Union Canal. 'He would present his accounts on the back of a Thames Conservancy Poster,' he said.

Canon Woodhams said that now he was in Nottingham the church accounts were beautifully produced and printed, but he regretted that accounts were not set out in a more understandable form. 'Average folk cannot understand them,' he added, 'and yet do not query them because of the integrity of your profession.'

The toast was responded to by Mr J. A. Jackson, F.C.A., Vice-Chairman of the Examination Committee of the Institute.

Of the Examination Committee, Mr Jackson said he wished to assure all students that they had no secrets. 'We are conducting a most popular examination,' he quipped.

Mr Jackson recalled that it had been said that if anyone dropped into a meeting of the Examination Committee they might well suppose they had joined a benevolent association.

'I can assure you that you have nothing to fear from us,' he said. 'We do everything to take the bugs out of it (the examination). It is you who put them in.

### 'Most Accountants Overworked'

The toast of "The Nottingham Chartered Accountant Students' Society' was proposed by Alderman J. Llewellyn Davies, F.R.C.S., J.P., Deputy Lord Mayor of Nottingham.

In the course of an amusing speech he told his audience that most chartered accountants he had known seemed to be overworked. 'But', he added, 'I have never been able to audit their private accounts to see if their fees were commensurate with the amount of work they put in.'

Alderman Davies said that he looked forward to the day when accountants would be able to feed a mass of figures into a computer and sit back until the answers

The toast was responded to by Mr R. N. E. Clarke, Secretary of the Nottingham Students' Society.

He said that it had been an extremely busy year for students in Nottingham. He thanked all those who had helped the Society and mentioned in particular the Nottingham and District Technical College which had arranged pre-examination lectures and a valuable introductory course.

The toast of 'The Guests' was proposed by Mr H. B. Bradfield, M.C., F.C.A., Vice-President of the Nottingham Students' Society.

### **Presentation of Howitt Prizes**

Mr K. A. Buxton, President of The Nottingham Society of Chartered Accountants, presented the Howitt Prizes to Mr W. Bates, and Mr E. S. Rainsford. Mr Bates obtained first place in the order of merit in the Final examination in November 1961. Mr Rainsford received his award for the May 1962 examination. He was also described as one of the prime movers in the formation of the Derby Students' Society.

### Notes and Notices

### PROFESSIONAL NOTICE

MESSRS A. J. CONNELLY & Co announce that Mr ANTHONY NETTLESHIP HUNT, A.C.A., has been admitted to partnership with effect from August 1st, 1962. The style of the firm remains unchanged.

### Appointment

Mr R. W. Collin, F.C.A., has been appointed chief accountant of the North Western Division of the National Coal Board.

### **OBITUARY**

### Sir Gerard d'Erlanger, C.B.E., F.C.A.

It is with regret that we record the death on December 15th at the age of 56, of Sir Gerard d'Erlanger, C.B.E., F.C.A., former chairman of British European Airways and British Overseas Airways Corporation.

Son of Baron Emile Beaumont d'Erlanger, Sir Gerard was educated at Eton, and in 1930 was admitted a member of The Institute of Chartered Accountants in England and Wales; his training for the profession was intended to fit him for his family's banking business.

Sir Gerard had a long-standing interest in aviation going back to 1928 when he first learned to fly. He became a director of Hillman Airways in 1935, and when Imperial Airways merged in 1939 he was appointed a director of the new concern, B.O.A.C. in 1940.

At the beginning of the Second World War, Sir Gerard formed the Air Transport Auxiliary, of which he was appointed its commandant until the end of the war. Under his leadership A.T.A. was responsible for ferrying 350,000 aircraft to operational squadrons. When A.T.A. was wound up he was appointed director in charge of B.E.A. on its formation in 1946 and became its chairman a year later. He had a difficult time in shaping the new corporation and had to be content with using war-time aircraft for the European services. In 1949 he resigned his post, but in 1956—again at a difficult period—was appointed chairman of B.O.A.C. on a part-time basis when the corporation was undergoing a period of heavy financial loss and industrial unrest. Sir Gerard did not seek renewal of his appointment when it expired in 1960.

Vice-chairman of his family's merchant banking business of Erlangers Ltd, he joined the board of the Philip Hill Investment Trust on the merger of Erlangers with Philip Hill, Higginson & Co Ltd. He was also chairman of the City and International Trust Ltd, the Moorgate Investment Co Ltd and deputy-chairman of the Provident Mutual Life Association Ltd. A member of the Air Transport Advisory Council from 1952–55 he served as chairman in 1954. He was knighted in 1958.

### Mr Stewart Cole, F.C.A.

We have learned with regret of the death in a London hospital on December 9th of Mr Stewart Cole, F.C.A., vice-chairman of Associated Fisheries Ltd. He was 88. Mr Cole was admitted an associate of The Institute of Chartered Accountants in England and Wales in 1898 and thus had been a member for sixty-four years.

He was one of the original three directors of Associated Fisheries when the company was formed in 1929 and for two years was chairman after the death of the founder, Mr W. A. Bennett, in 1959. He had been a lifelong friend of Mr Bennett having been associated with him from the earliest days through the firm of Cole, Dickin & Hills, Chartered Accountants, of London, which he founded.

Mr John Bennett, managing director of Associated Fisheries Ltd, in a tribute to Mr Cole, said: 'He was a fine and lovable man and a great friend of my family. He had a courage and spirit which brough him safely through the serious operation he had undergo recently, but the later complications were too much for a man of his age. He maintained his interest in, and work for the company right to the day of his illness. He was one of our pioneer builders and we shall all miss him sadly'.

### IN PARLIAMENT Share Transfers: Duty

Mr W. CLARK asked the Chancellor of the Exchequer what would be the cost to the Exchequer if stamp duty on shares etc., was reduced from 2 per cent to 1 per cent; if it was abolished on all transactions where the transfer amount did not exceed £100; and if it was abolished altogether.

Mr Barber: The cost of reducing the duty on share transfers from 2 per cent to 1 per cent would be nearly £25 million in a full year and the cost of abolishing it would be nearly £50 million. It is not possible to estimate the cost of abolishing the duty on all transactions where the consideration did not exceed £100 since there would be no effective means of ensuring that the relief was confined to bona fide small transactions.

Hansard, Dec. 11th, 1962. Written Answers. Col. 55.

### Income Tax: P.A.Y.È.

Mr W. CLARK asked the Chancellor of the Exchequer what was the product from P.A.Y.E. for the last five years separately to March 31st, 1962.

Mr BARBER: The total tax deducted under P.A.Y.E. during the Income Tax years ending on April 5th is given below in £ million:

1957-58	 				956·8
1958-59	 				1,025.7
1959-60	 	• •	• •	• •	1,051.0
1960∹61	 		• •		1,245.4

The figure for 1961-62 is not yet available but it is estimated at about  $f_{11,385}$  million.

Hansard, Dec. 11th, 1962. Written Answers. Col. 56.

### War Loan

Mrs Braddock asked the Chancellor of the Exchequer (1) what is the total amount of money loaned to Her Majesty's Government in respect of 3½ per cent War

Loan; how many private persons hold 3½ per cent War Loan stock; and how many of them are men aged 60 years or over, and women aged 55 years or over;

(2) what would be the cost to the Exchequer of redeeming at par all 32 per cent War Loan stock at Spresent held by men aged 60 years or more and women aged 55 years or more.

Mr DU CANN: £1,909 million nominal of 3½ per cent War Loan is now outstanding. There are about eight hundred thousand accounts, but information is not available as to the number or size of holdings of private persons in general or of particular age groups.

Hansard, Dec. 13th, 1962. Written Answers. Col. 93.

### **Purchase Tax**

Mr Millan asked the Chancellor of the Exchequer if he will state the yield of purchase tax for the year 1961-62; and how much was yielded by each of the various rates of tax.

Mr DU CANN: The yield of the purchase tax in 1961-62 was £521 million, made up as follows:

	Rai	:e							lield* million
5		cent						.~	67
121	"	**	٠				•		41
25	,,	,,	٠						174
50	,,	,,	٠		•				239
									521

\*Inclusive of the 10 per cent special surcharge from July 26th, 1961.

Hansard, Dec. 13th, 1962. Written Answers. Col. 94.

### THE DUBLIN SOCIETY OF CHARTERED ACCOUNTANTS

A wide variety of meetings has been arranged by The Dublin Society of Chartered Accountants for the New Year, the first of which will take place in January (on a date to be announced) when Sir Ian Maclennan, K.C.M.G., British Ambassador to Ireland, will address a luncheon meeting of the Society. Further meetings are as follows:

February 6th: Luncheon meeting 'Public speaking for business men.' Speaker: Mr Laurie Duffy (President, Dublin Toastmasters' Club).

February 15th: Annual dance, The Gresham Hotel. February 20th: Mr Garret Fitzgerald, Economist Intelli-

gence Unit in Ireland. March 20th: 'Modern accounting developments in

U.S.A. Speaker: Mr B. Maynard, F.C.A. March (date to be arranged): 'Membership of E.E.C. legal and taxation considerations', by a representative of 'Irish Council of the European Movement'.

May 3rd: Annual dinner. (Industrial and Administrative Group.)

May 4th: Annual general meeting of The Institute of Chartered Accountants in Ireland.

May 24th - 27th: Institute's golf meeting - Rosses Point. June 19th - 20th: Institute's Seventy-fifth Anniversary Celebrations.

June (date to be announced): Society's annual general meeting.

### Students' Group

The following meetings are among those which have been arranged by the Students' Group:

January 17th: 'Students' tax problems,' by Mr Norman

February 9th: Rugby match v. London Students (home).

March 14th: 'The Companies Bill 1962,' by Mr M. Abd
El-Motaal, M.COM., A.C.A., Lecturer in Accounting, Trinity College, Dublin.

April 2nd: 'Examination technique,' by Mr T. P.

Crowley, A.C.A.

All the above meetings will be held at Jury's Hotel, College Green, Dublin.

### SOUTHEND CHARTERED ACCOUNTANTS Fifteenth Annual Dinner

Despite the bad weather and heavy fog twenty-nine members of the Southend-on-Sea Chartered Accountants' Group entertained fifty-three guests and sixteen articled clerks at the Group's fifteenth annual dinner held at the Middleton Hotel, Southend-on-Sea, on December 6th. Mr S. Porter, F.C.A., Chairman of the Group, presided.

The principal guests were the Mayor of Southend, Alderman O. A. Moss, J.P., and Mr J. A. Allen, F.C.A., a member of the committee of the London and District Society of Chartered Accountants. Other guests present included the President of the Southend-on-Sea and District Chamber of Trade, the President of the local branch of The Law Society and persons prominent in the professional and business life of the town.

### LEEDS STUDENTS' MAGAZINE

The Chartered Accountant Students' Society of Leeds have introduced a new magazine for members entitled Tick. It replaces their previous venture in this field -Equilibrium – started in the spring of this year.

Extending to nineteen pages, Tick includes the Parker Report recommendations as well as some pertinent comment on them. There is also an interesting article by Professor David Solomons, B.COM., F.C.A., Professor of Accounting in the Wharton School of Finance and Commerce, Pennsylvania, and formerly Professor of Accounting at Bristol University, on 'What is accounting like over there?' Details of lecture courses and a member's self-examination after four years of articles as to why he entered the profession, help make up the varied reading in this attractively produced magazine which is to be published quarterly.

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### SOLUTION TO 'A CHRISTMAS RECOLLECTION'

The quotation from Robert Burns is -

'Should auld acquaintance be forgot,

And never brought to min'?

'Should auld acquaintance be forgot,

'And days o' lang syne?'

- and the answers to the questions on earlier pages of this issue are:

- 1. Selenography.
- 2. Hunt, Leigh.
- 3. Othello.
- 4. Urquhart, Sir Thomas.
- 5. Lear.
- 6. Delft.
- 7. Allopathy.
- 8. Uranus.
- 9. Linchet.
- 10. Deal.
- 11. Andante.
- 12. Chauvinism.
- 13. Quintillion.
- 14. Usufruct.
- 15. Acanthus.
- 16. Iron.
- 17. Nicholas.
- 18. Titian.
- 19. Argent.
- 20. Newton, Sir Isaac.
- 21. Chateaubriand.
- 22. Ephesus.
- 23. Beeton, Mrs.
- 24. Endogamy.

- 25. Franklin, Benjamin.
- 26. October.
- 27. Royale, Rue.
- 28. George I.
- 29. Ombre.
- 30. Tamburlaine.
- 31. Arnold, Matthew.
- 32. Newton, Sir Isaac.
- 33. Diamonds.
- 34. Nyctanthous.
- 35. Eliot, T. S.
- 36. Veronese, Paolo.
- 37. Encaenia.
- 38. Rheims.
- 39. Belgium.
- 40. Rigoletto.
- 41. Orlando.
- 42. Utilitarianism.
- 43. Griffin.
- 44. Haemoglobin.
- 45. Taunton.
- 46. Telluson Act.
- 47. Orion.
- 48. MacHeath in The Beggar's Opera.
- 49. Iris.
- 50. Nemesis.
- 51. Spain.
- 52. Hellespont.
- 53. Orkneys.
- 54. Uccello, Paolo.
- 55. Lutyens, Sir Edwin.
- 56. Donkey.
- 57. Ayr.
- 58. Uruguay.
- 59. Lehar, Franz.
- 60. David.

- 61. Albany.
- 62. Confucius.
- 63. Quebec.
- 64. Udall, Nicholas.
- 65. Austen, Jane.
- 66. Ithaca.
- 67. Nash, Ogden.68. Tooting.
- 69. Asquith, H. H.
- 70. Napoo.
- 71. Cervantes.
- 72. Epicurus.
- 73. Boston, U.S.A.
- 74. Engels, Friedrich.
- 75. Florence.
- 76. Overlord.
- 77. Rackstraw, Ralph in
- H.M.S. Pinafore. 78. Gerrymandering.
- 79. Ophir.
- 86. Tagus.
- 81. Amazon.
- 82. Novello, Ivor.
- 83. Dodecahedron.
- 84. Domitian, Titus Flavius.

¥

- 85. Apogee.
- 86. Yugoslavia.
- 87. Serendipity.
- 88. Ouida.
- 80. Lahore.
- go. Adonais.
- 91. Noncupative.
- 92. Greece.
- 93. Socrates.
- 94. Yuan.
- 95. North, Lord.
- 96. E.

### ANNOTATED TAX CASES

Edited by Peter Rees, of the Inner Temple, Barrister-at-law

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### LOC ACCOUNTANT

### THE INSTITUTE OF CHARTERED ACCOUNTANTS IN IRELAND

### RESULTS OF EXAMINATIONS HELD IN OCTOBER 1962

The following candidates were successful in the examinations held in October 1962

### PART I

Barry, D. (Waterford)
Beatty, H. W. (Carrickfergus, Co. Antrim)
Browne, J. (Carrick-on-Suir, Co. Tipperary)
Browne, M. P. (Dublin)
Burke Kennedy, D. B. (Dublin)
Syrne, M. E. (Dublin)

Corr, J. F. (Dungannon, Co. Tyrone) Cotter, J. (Dublin), First Place Craig, D. (Dalkey, Co. Dublin) Creighton, B. (Cork) Cudmore, H. (Cork)

Daly, N. F. (Swords, Co. Dublin)

Ennis, V. A. (Belfast)

Finegan, J. J. (Navan, Co. Meath) Fitzgerald, R. J. (Blackrock, Co. Dublin)

Ghauth, M. M. (Belfast) Grant, W. (Belfast)

Holland, A. T. (Dublin)

Hyde, A. (Portadown, Co. Armagh)

Kelly, D. J. (Dublin)

Leahy, V. (Cork) Lesson, N. H. (Dublin)
Leheny, F. J. (Dublin)
Lloyd, G. (Belfast)
Loftus, M. (Ennis, Co. Clare) Lynch, F. W. (Dublin)

McClay, A. J. (Belfast)
McDonald, B. M. (Dublin)
McElholm, T. B. (Omagh, Co. Tyrone)
McGauley, J. J. (Wicklow)
McGillion, T. G. (Drogheda, Co. Louth)
McMaster, W. (Muckmore, Co. Antrim), Third Place

Thra Place
Maher, J. D. (Monkstown, Co. Dublin)
Mangan, J. T. (Limerick)
Meharry, G. (Belfast), Second Place
Monaghan, W. J. (Dunmurry, Co. Antrim)
Mooney, P. N. (Dublin)
Moore, T. B. (Sandycove, Co. Dublin)

O'Brien, P. (Belfast) O'Donohoe, L. T. (Dublin) O'Leary, P. (Cashel, Co. Tipperary) O'Reilly, C. M. (Dublin)

Perry, F. J. (Dublin) Prior, P. B. (Longford)

Quigley, D. (Foxrock, Co. Dublin)

Rooks, J. (Newtownabbey, Co. Antrim) Roughan, J. P. (Sligo) Russell, D. K. (Bray, Co. Wicklow) Ryan, P. A. (Dublin)

Sibley, R. W. (Dublin) Slattery, D. J. (Dublin) Sloan, W. J. (Lisburn, Co. Antrim)

Taggart, J. W. (Dublin)

White, B. J. (Dublin) 35 candidates failed to satisfy the examiners

### PART II

Bell, C. (Portadown, Co. Armagh)
Boland, W. F. (Belfast)
Bowen, F. W. (Blackrock, Co. Cork)
Brennan, C. M. (Galway)
Brewster, I. (Coleraine, Co. Londonderry)
Butler, P. A. (Cork)
Byrne, E. R. (Cork)
Byrne, F. A. (Dublin)

Caffrey, P. S. (Dublin)
Callaghan, J. E. (Dublin)
Callaghan, M. P. (Dublin)
Campbell, C. (Belfast)
Casey, J. F. (Cork)
Chandler, A. F. (Cork)
Coady, M. A. (Tullamore, Co. Offaly),
Third Place Corr, F. M. (Dublin) Cronin, J. (Dublin) Crowe, A. R. (Newtownards, Co. Down)

Dalton, C. (Cork)

Eaton, G. (Cork) Edgar, G. R. (Greyabbey, Co. Down)

Farren, M. P. (Moville, Co. Donegal) Ferguson, A. J. (Belfast) Fitzmaurice, M. P. (Newry, Co. Down)

Gerrard, J. F. (Drogheda, Co. Louth)

Hall, S. (Belfast) Hasson, C. (Belfast) Hayes, J. G. (Limerick)

Kane, J. R. (Sandycove, Co. Dublin) Kelly, J. B. (Dublin) Kennedy, B. J. (Dublin) Kinahan, P. J. (Dublin)

Lorigan, T. (Dublin) Loughnane, M. (Dublin) Lowry, E. F. (Dunmurry, Co. Antrim) Lyons, J. F. (Dublin)

McKane, D. A. (Milford, Co. Armagh) McKeon, J. P. (Dublin) Meaney, J. P. (Dublin) Meenan, I. (Dublin) Murphy, J. B. (Cork)

Noble, W. (Jordanstown, Co. Antrim)

O'Brien, J. G. (Dublin), First Place O'Callaghan, E. C. (Glenageary, Dublin) O'Malley, P. J. (Dublin)

Pope, A. K. (Dublin)

Quinn, T. S. (Sligo)

Ross, R. T. (Belfast) Ryan, C. D. (Dublin) • Ryan, E. M. (Waterford)

Scott, D. I. (Dublin)
Shanks, T. R. (Belfast)
Sheeran, J. G. (Dublin)
Sherlock, N. F. (Dublin)
Solomons, G. L. (Cultra, Co. Down),
Second Place

Wylie, I. (Belfast) 98 candidates failed to satisfy the examiners

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### PART III

Aldridge, A. F. (Sandycove, Co. Dublin)

Bates, J. (Dublin)
Beare, P. G. (Dublin)
Beattie, D. (Newtownabbey, Co. Antrim)
Boucher, D. J. (Sandycove, Co. Dublin)
Blackall, W. T. (Dublin)
Brophy, A. J. (Waterford)
Brown, J. P. (Dublin)
Browne, W. V. (Ennis, Co. Clare)
Butler, W. P. (London)
Byrne, P. A. (Sligo)

Campbell, M. (Antrim) Campbell, M. (Antim)
Cannon, J. F. (Dublin)
Carson, R. B. (Belfast)
Casey, J. H. (Glenagearry, Co. Dublin)
Cawley, G. F. (Sligo)
Chapman, J. J. (Dublin)
Costello, M. A. (Dublin)

Deacy, R. M. (Galway) Denton, J. (Belfast) Dolan, J. F. (Dublin) Duffy, M. (Belfast) Duggan, D. P. (Dublin)

Eason, D. R. (Dublin)

Farrell, W. M. (Laois) Forgarty, D. (Dublin) Glass, D. (Belfast)

Hanlon, P. J. (Dublin)
Hanna, N. E. (Belfast)
Haugh, M. J. (Dublin)
Hayden, N. T. (Dublin), *Third Place equal*Henry, W. H. (Ballymena, Co. Antrim)
Horkan, J. D. (Dublin)

Jenkins, C. G. (Belfast) Jones, M. W. (Dublin)

Kavanagh, J. P. (Dublin), Second Place Keatinge, T. W. (Dublin) Kelly, J. K. (Dublin) Kenny, M. (Dublin) Kiernan, T. J. (Cork) King, K. J. (Dublin)

Lennox, R. (Newtownabbey, Co. Antrim) Little, D. R. (Glenageary, Co. Dublin) Lynch, B. C. (Blackrock, Co. Dublin)

McCormick, G. A. (Dublin)
McGahon, N. P. (Dundalk, Co. Louth)
McGrath, D. J. (Dublin)
McKay, W. F. (Newtownards, Co. Down)
McLoughlin, J. P. (Dublin)
McMahon, M. (Meanus, Co. Limerick)
McNeice, T. E. (Toomebridge, Co. Antrim)
Meneely, S. I. (Dunmurry, Co. Antrim)
Moriarty. F. D. (Dublin) Moriarty, F. D. (Dublin)

Morkan, T. F. (Templemore, Co. Tip-

perary)
Mulholland, J. E. (Belfast)
Murphy, M. P. (Wexford)
Murray, C. A. (Dublin)
Myles, D. L. Belfast))

Nash, T. V. (Cork) Ndugbu, C. (Belfast) Neary, A. M. (Dublin)

O'Donovan, D. (Cork)
O'Driscoll, J. J. (Dublin)
O'Kane, E. (Coleraine, Co. Londonderry)
O'Neill, J. F. (Dublin), First Place
O'Reilly, J. (Galway)
O'Riordan, J. J. (Dublin)
O'Shea, R. J. (Carnew, Co. Wicklow)

Power, W. P. (Tramore, Co. Waterford) Pringle, C. W. (Foxrock, Co. Dublin) Purcell, O. W. (Dublin), *Third Place equal* Purdy, G. E. (Belfast)

Rahman, A, R. B. A. H. (Belfast)

Savage, T. J. (Belfast) Shamsudin, M. H. (Belfast) Sheehan, J. M. (Dublin) Strong, J. E. (Sligo) Surdival, M. D. (Dublin) 80 candidates failed to satisfy the examiners

### PART IV

Bastible, J. C. (Dublin)
Bourke, C. P. (Dublin)
Buckley, J. N. (Cork)
Burke, J. J. (Thurles, Co. Tipperary)
Byrne, J. (Dublin)
Byrne, R. (Dublin)

Carroll, R. H. (Dublin) Coughlan, L. S. (Dublin)

Devitt, A. B. (Dublin) Diffin, E. (Armagh)
Donnelly, M. P. (Dublin)
Dowling, N. O. (Dublin)
Driver, T. O. (Dublin)

Fagan, S. F. (Dublin)
Flood, J. D. (Carrick-on-Shannon, Co. McCagherty, A. B. (Newtownabbey, Co. Antrim) Fox, N. L. (Dublin)

Geraghty, A. P. (Dublin)

Glass, D. (Belfast) Gracey, E. B. (Newtownabbey, Co. Antrim) Grehan, D. P. (Dublin) Groeger, R. A. (Cork)

Harbison, C. J. (Dublin) Healy, A. J. (Dublin) Heslin, V. A. (Dublin) Hession, C. E. (Dublin) Hoey, M. J. (Dublin) Hogan, J. F. (Dublin) Howlett, B. G. (Dublin)

Kelly, P. G. (Dublin) Kennedy, J. J. (Dublin)

Lyster, W. B. (Dublin), Second Place equal

Antrim) McClung, R. (Belfast)

McCowen, M. P. (Dublin), Second Place equal

MacGuigan, J. M. (Dublin) McHugh, F. C. (Dublin) MacMahon, N. J. (Dublin) McManus, B. (Dublin) Marron, P. (Dublin) Mulvany, J. P. (Dublin) Murray, J. (Longford)

Nealon. P. (Nenagh, Co. Tipperary)

O'Brien, J. G. (Dublin)
O'Connor, L. G. (Dublin)
O'Daly, R. K. (Dublin)
O'Donnell, N. (Sligo), First Place
O'Grady, B. M. (Dublin)
O'Reilly, M. K. (Dublin)
O'Shea, P. C. (Dublin)

Shaw, R. M. (Dublin) Smyth, P. A. (Scotstown, Co. Monaghan) 62 candidates failed to satisfy the examiners

### PART V

Agnew, W. P. (Ballymena, Co. Antrim)

Burns, A. K. (Enniscorthy, Co. Wexford), Second Place

Cuffe, D. B. (Dublin)

Kelleher, S. D. (Dublin)

McDonogh, W. J. (Limerick) McDonogh, W. J. (Limerick)

Maxwell, T. B. (Bangor, Co. Down)

May, N. W. M. (Holywood, Co. Down)

O'Reilly, S. (Dublin)

O'Shaughnessy, J. A. (Cork), Third Place

27 candidates failed to satisfy the examiners

First Place Morton, J. C. (Newcastle, Co. Down)

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### 1962 and After

YO year in the lengthening history of the profession which includes an International Congress of Accountants can be considered wholly uneventful but, this apart, nothing untoward happened during 1962 to the rank and file of accountants to disturb the even tenor of their way. The Congress was a great occasion not only socially but as an opportunity to make a quinquennial valuation of the strength and standing of the profession at large. In the closing address, Mr J. C. STEWART, C.A., President of The Institute of Chartered Accountants of Scotland, must have accurately reflected what was in the minds of many of the delegates when he said that accountants must become more conscious that it is the future that matters even more than the past; and that, as well as remaining reliable and impartial, the profession must improve the means of communicating information and must continually develop new conventions in order to present essential economic facts and factors to owners and management.

Although to some extent the New York Congress overshadowed the more domestic gatherings of the various professional bodies in 1962, these took place without any apparent diminution of enthusiasm. The Association of Certified and Corporate Accountants got off to an early start with a week-end school at Cambridge at the end of March. The Institute of Cost and Works Accountants migrated to Harrogate in May for its annual conference and meeting, and The Institute of Chartered Accountants in England and Wales, as is now its custom, held one summer course at Cambridge in July and another at Oxford in September. Between these two events. The Institute of Chartered Accountants of Scotland celebrated its tenth summer school at St Andrews. The quality of the papers given at these meetings can be adequately assessed from the selection which was subsequently reprinted in these pages. The quantity of goodwill engendered cannot be so easily measured but it was certainly considerable, all the more so because at the Scottish Institute school at St Andrews and the second English Institute course at Oxford, representatives from overseas accountancy bodies en route for New York were present as guests.

In our review of 1961, we suggested that accountants in industry had been working at full throttle preparing, in many instances, for the possible challenge, exhilarating but exacting, of the Common Market. At that time, the entry of the United Kingdom into the European community seemed imminent. Whatever happens now, however, international competition will inevitably become increasingly intensified and the sharpening of management and operational techniques to a razor-edged standard of efficiency must always be a condition precedent to the continuing prosperity of any country whether within the Rome Treaty or not. It should not be necessary to emphasize here how much accountants, in practice as well as in industry, can contribute to this sharpening process.

The outstanding publication of the year, as far as the profession is concerned, was the Report of the Company Law Committee. The committee which had Lord JENKINS as its chairman and Sir WILLIAM LAWSON, C.B.E., B.A., F.C.A., and Mr WILLIAM WATSON, C.A., among its thirteen other members, expressed the opinion that the 1948 Companies Act had 'on the whole worked well in practice' but that there was always room for 'improvements of substance'. It followed up these generalizations by making about three hundred and fifty recommendations. Not all of these, naturally, were of equal importance and many were elaborations of one particular principle. One of the major suggestions was that the distinction between exempt and non-exempt private companies should be abolished with the consequence that all companies would have to lodge annually with the Registrar of Companies copies of their accounts. The information to be disclosed in these accounts, however, would be modified in the case of concerns which were not, in effect, public companies or subsidiaries of public companies. Another important recommendation was that section 195 of the current Companies Act should be altered so that everyone beneficially owning 10 per cent or more of the equity capital of a limited company would have to disclose their interest.

The Jenkins • Committee also considered whether banks and discount, shipping and insurance companies should still be exempt from complying with all the existing requirements of the Eighth Schedule of the Act. It was agreed unanimously that insurance companies should continue to be excused but that the privilege should be withdrawn from shipping companies. As regards banks and discount companies, the majority view was that the exemption should still apply. It is expected that as a result of the committee's findings, a new Companies Act may be promulgated. This will be of major importance to the financial and commercial

world as well as to the accountancy profession.

Two other publications, both emanating from the Council of The Institute of Chartered Accountants in England and Wales, to make interesting and instructive reading in 1962 were the second of the series of statements on auditing, entitled 'Stock-in-trade and work in progress'. and issued in March; and 'Terms used in published accounts of limited companies', which appeared in May. The value of such statements lies principally in their clarity of expression and definition. No young auditor, for example, verifying stock-in-trade should go astray if, as well as studying the basic guidance given by the Council, he uses the initiative which his practical professional training should have developed in him. A feature of the statement on the terminology of published company accounts was that the Council made positive suggestions as to the words and phrases it preferred. In comparable surveys made annually by the American and Canadian Institutes, while tables are given of the terms most in favour, no 'official' opinions as to what might be the most suitable are expressed.

In 1950 – the recollection, although it appears to be harking a long way back in a review of the year now ending, is relevant - Professor W. T. BAXTER, B.COM., C.A., edited an excellent anthology called Studies in Accounting. A new edition of the book was published earlier this year as Studies in Accounting Theory and, while commenting on it in these columns, we remarked that the main change of emphasis in the revised contents was that relatively less space was devoted to the purely historical aspects of accounting and much more to considerations of improvements in techniques, to accounting as an instrument of managerial control and to the increased responsibilities which the accountant was being called upon to assume in our modern society. This forward-looking attitude - which, incidentally, coincides exactly with that adopted by Mr STEWART in his Congress address - might be said to typify the present aims of the profession. Next year, Edinburgh will be the setting for the first ever Congress of European Accountants. This would seem to be a splendid chance to reaffirm the message of the International Congress that, as well as measuring the past, accountants are actively preparing with the aid of modern techniques now at their command to anticipate the future.

### Builders' 'Remainders' and 'Investments'

by A BARRISTER-AT-LAW

The difference between a capital profit and an income profit is often balanced on a knife-edge. A particularly difficult problem sometimes arises in connection with builders' 'remainders' and other houses unsold in the normal course of business. In this article the writer discusses a number of decisions which illustrate the tests to be applied in determining the nature of profits on sale.

THE problem under discussion is complicated at the outset by the different categories of builders. A man may carry on the trade or business of a builder without possessing a single house as an investment; or he may hold numerous houses for investment in addition to building houses for sale. He may be a speculative builder, or he may build houses under contract for others. A company may have trading objects only, or investment powers only, or both. In any event, the objects clause of a company's memorandum of association merely sets out the company's intention at the date of incorporation. What the company actually does may be something rather different. A company with trading as its principal object may carry on business as a property-holding company; a company with investment as its main object may confine its attention to building and selling houses. The true nature of a business may only become apparent after a lapse of time which enables evidence as to the scope of its operations to be accumulated (F.P.H. Finance Trust Ltd v. C.I.R. (23 A.T.C 147; 26 T.C. 131)).

In this connection, it is not always appreciated to what extent resolutions of the directors of a company affecting the treatment of properties in the accounts, or otherwise for the purposes of the company, may be relevant to a finding of fact by the Appeal Commissioners as to whether properties are fixed assets or trading assets. And the same observation applies to correspondence and interviews with the Inspector of Taxes regarding the character of the properties in question and the nature of profits from sales. All goes on the inspector's file and helps to build up a picture for the future. Hence the importance, at the earliest possible date, of close attention to all matters which may later provide evidence for a determination of fact by the Commissioners, should the case go that far. For as a general rule, a determination of fact will not be upset on appeal, even though the Appellate Court might itself have come to a different conclusion on the same facts

(Edwards v. Bairstow and Harrison (34 A.T.C. 198; 36 T.C. 220)).

### **Unincorporated Builders**

If an individual carries on a trade of dealing in land and also holds properties as investments, it is clearly necessary to distinguish between the properties held as investments and those which form part of the stock-in-trade of the business (Hudson v. Wrightson (13 A.T.C. 382; 26 T.C. 55)). But unless the precautions referred to above are observed, this distinction may be difficult to maintain, especially where the taxpayer is a speculative builder, as in Sharples v. Rees (19 A.T.C 212; 23 T.C. 361), where it was unsuccess-. fully contended that land bought and sold by the builder had been purchased for his personal use. On the other hand, there is nothing to prevent a builder holding houses as investments, as in Bradshaw v. Blunden (35 A.T.C. 109; 36 T.C. 397), where a builder retained houses which he had built, as investments, on transferring his business; to a company. And this is so even though the purchasing company is practically wholly owned by the builder himself, for the reason that even a 'one-man company' is a separate legal entity (Salomon v. Salomon & Co ([1897] A.C. 22)).

A somewhat similar case to Bradshaw v. Blunden is Seaward Brothers v. Varty (41 A.T.C. 64) where a firm consisting of two brothers carried on business as building contractors. When there was no contract work available, the firm built houses on sites which it owned. In 1949 the building contractors' business was transferred to a company which had been incorporated by the taxpayers. At that date 123 houses had been built on the firm's land but all of them were retained by the two brothers. Between 1949 and 1958 twenty-two houses and three building plots were sold and the Revenue raised assessments in respect of the resulting profits.

The Special Commissioners decided that the houses and plots sold were part of the trading stock of a composite business carried on by the

firm; that after the transfer of the contracting business to the company those properties remained trading stock of a part of the business retained by the firm, and that the surpluses arising on the sales were assessable under Case I of Schedule D.

The Court reversed the Commissioners' findings. It said there was nothing inherently impossible in excepting certain assets out of a sale, and that was what the firm had done. Its main activity was the execution of contract work which distinguished it from a speculative builder, and that made an important difference. The cessation provisions of the Income Tax Acts were applied to the building business following the sale, and the houses were normally let, rather than sold, as they fell vacant. That and the period over which sales took place, and the limited number of sales, marked the houses as investments.

It does not follow, however, because houses are treated by the Revenue as investments for particular years, that they are bound to be so treated in subsequent years. Treatment by the Revenue is not irrevocable, and if circumstances change, e.g. if there are frequent or numerous sales, or if events show that the original basis of treatment was wrong, the Revenue is free to revise the position. Thus, in Rellim Ltd v. Vise (30 A.T.C. 105; 32 T.C. 259) the taxpayer company had power to hold land and property as investments and also to deal in them by purchasing and selling with a view to making a profit. For some years the company was treated as an investment company and was allowed relief in respect of management expenses; but when it sold two houses, thirteen acres of land and a small farm it was assessed to tax on the profits, and the assessment was upheld by the Court.

But there may be good reason for selling investment property, in which event the profits are not taxable, as in West v. Phillips (37 A.T.C. 270; 38 T.C. 203), where the taxpayer was indebted to his bankers, owed large sums to building societies and had substantial arrears of income tax and surtax. In that case it was held that there were compelling reasons for the sale of 406 investment houses and that the sale did not convert the houses into stock-in-trade of the builder.

### Companies

Broadly speaking, a private investor is less liable to tax on realized profits from the sale of property than a builder; a builder less liable than a company, and an investment company less liable than a trading company. If a company is to escape

liability to tax, it would seem that its objects must empower it to invest, but that even if they do so, the company by its conduct may nevertheless be held to carry on a trade.

In Granville Building Co Ltd v. Oxby (33 A.T.C. 144; 35 T.C. 244) the company built two houses on an estate, the rest of which it had developed and sold. On completion the houses, which were let and not offered for sale, were treated as stock-in-trade in the company's accounts. Two months later the directors of the company resolved that houses on hand at the earlier date should be treated as investments at the values shown in the last balance sheet, and they subsequently appeared in the balance sheet as capital assets. Eight years later one of the houses was sold to the sitting tenant and it was held that 🦂 the company was rightly assessed to tax on the resulting profit. Harman, J. (as he then was), said there was no true parallel between a trading company and a private individual, and he underlined, in the case of a company, the importance of its memorandum of association. The taxpayer company had no power to invest in property except out of surplus capital, and at the date when the house was erected the company was indebted to its bankers.

In another case – James Hobson & Sons Ltd v. Newall (36 A.T.C. 239; 37 T.C. 609) – the memorandum of association was also determining factor. The company's objects empowered it to carry on the business of builders, and to purchase, lease or otherwise acquire real or leasehold property for business purposes or for investment and re-sale. It was thus not empowered to build houses for investment. The company built houses to let, and it also retained builders' 'remainders' for letting purposes. Further, it bought land, on which were two houses, for the erection of a garage for the company's purposes. After the Second World War the company sold houses of which it obtained vacant possession. It was held that the builders' 'remainders', the houses built to let and also the two houses on the land bought for the company's purposes, formed part of the company's stock-in-trade.

In Forest Side Properties (Chingford) Ltd v. Pearce (40 A.T.C. 155) the objects of the company were to enter into an agreement to buy twenty-four maisonnettes and one house from the two directors and shareholders of the company; to purchase land, houses and other property; to create, sell, and dispose of freehold and leasehold ground-rents; to manage land, buildings and other property and to supply services to tenants.

On some date the directors of the company passed a resolution (which was minuted) expressing the intention of the company to hold property as an investment. During the war no property was sold, but later it became the policy of the company to consider propositions for the disposal of the properties on long leases and to pay sitting tenants to give up possession. Some twenty maisonnettes were sold at a profit but no other properties were bought or sold.

The two directors of the company were builders, and the General Commissioners found that the company had purchased the maisonnettes and the single house as stock-in-trade. They also found that the intention to hold the properties as an investment, as expressed in the minute of the company, was put on record with the taxation position in mind and was not intended to obtain when circumstances changed. The Court of Appeal approved the Commissioners' findings.

In Lucy & Sunderland Ltd v. Hunt (40 A.T.C. 446) the taxpayer company, which was a timber company, held a majority shareholding in a building company and a number of other investments. In 1940 the building company ceased to trade and the houses which it had on hand were transferred in its balance sheet from stock-in-trade to fixed assets. They were let to tenants and the company received the rents. In 1945 the taxpayer company did not wish its subsidiary company to resume its building business which had been interrupted by the war, but in order to help the managing director of the subsidiary company to start in business himself at a time when he could not obtain a licence to build, it sold to him its shares in the building company and bought from that company its unsold houses and building plots.

The taxpayer company had power under its articles to carry on the trade of builders, but it simply received the rents from the houses which it had purchased from the building company. Following offers for the plots and some of the houses, it sold all but six houses over a period of ten years at a profit.

On the view that the motive of the taxpayer company in taking over the houses was to help the managing director of the building company, rather than to dispose of the houses at a profit, Cross, J., allowed an appeal by the taxpayer company against an assessment to tax on its profits from sales. He applied Glasgow Heritable Trust Ltd v. C.I.R. (33 A.T.C. 145; 35 T.C. 212) and held that though the houses might still have been stock-in-trade of the building

company had it realized them, that was not a relevant consideration in deciding whether or not the houses became trading stock in the hands of the taxpayer company.

### Ground-rents and Rent-charges

Sometimes a builder or developer sells houses subject to a rent-charge or grants a long lease for a single premium subject to a ground-rent. When this is done the tax procedure differs according to the method adopted. The owner of freehold land who leases the land subject to the payment of a ground-rent (and thus retains the freehold reversionary estate) brings the ground-rent into his accounts at cost or market value (whichever is the less) in accordance with normal accountancy practice and is not taxable on the capital value of the ground-rents (less cost) until they are sold (B. G. Utting & Co Ltd v. Hughes (19 A.T.C. 53; 23 T.C. 174)). Similarly, where a lessee grants an underlease at an improved ground-rent, tax is not exigible until the improved ground-rent is sold (Heather v. A. Redfern & Sons Ltd (23 A.T.C. 71; 26 T.C. 119)). Meanwhile, tax is payable in each case on an annual value basis only. Hence, groundrents are preferable from the tax standpoint to rent-charges, since in the latter case the realizable value of the rent-charges has to be brought into the trading account, even though the rent-charges are retained rather than sold (John Emery & Sons v. C.I.R. (15 A.T.C. 241; 20 T.C. 213)). When ground-rents are sold they will be taxable (if at all) on the whole of the proceeds of sale, less cost, expenses of sale, etc. Whether the proceeds of sale will in fact be taxable depends upon whether the ground-rents are held as investments which are changed, or whether they are stock-in-trade.

In Scotland it is apparently not uncommon for houses built to be retained by the developer and for feu-duties (corresponding more or less to ground-rents in England), with which the land and houses are burdened, to be sold to a purchaser. In Furtado v. Cardonald Feuing Co Ltd ([1962] T.R. 275) the taxpayer company bought a vacant piece of land for £898 and built twenty-four houses on it. It burdened the land and houses with feu-duties yielding £114 per annum, which it sold for £3,135. The Revenue assessed the company to tax in respect of the difference between £898 and £3,135, viz. £2,237, spread over a period. The Court of Session held that the basis of assessment was incorrect and not surprisingly so. But the case was an old one (heard as long ago as 1906) which has only recently been reported as being likely to be of value in

connection with the computation of short-term capital gains.

In the later case of McMillanv. C.I.R. (21 A.T.C. 177; 24 T.C. 417), it was held that where a house is sold for a lump sum and a feu-duty payable by the purchaser, the cost (which was the question in issue in the earlier case) is to be computed as that proportion of the total expenditure in acquiring the land, developing it and erecting houses on it, which the lump sum bears to the total amount made up of the selling value of the

feu-duty at the date of its creation and the lump sum.

The position generally is now further complicated by the provisions contained in Chapter II of the Finance Act, 1962, relating to short-term capital gains, and by sections 23 and 24 of the Act, which relate to sales of building land by persons associated with builders and sales of land by land-owning companies, respectively, but these provisions are outside the scope of the present article.

### The Accounting World

TOPICS OF PROFESSIONAL INTEREST FROM OTHER COUNTRIES

### SOUTH AFRICA

### Introduction of P.A.Y.E.

As already noted in these columns, proposals have been published relating to the introduction of a P.A.Y.E. system of taxation in South Africa. The necessary legislation will be considered by Parliament during the forthcoming session.

In order to assist in the smooth change over to a P.A.Y.E. system, which will probably be introduced in two months' time, the Joint Council of the Societies of Chartered Accountants of South Africa has produced a memorandum for the information not only of the profession, but also the public in general. This book deals with taxation during the transitional period (July 1st, 1962 – February 28th, 1963); employees' tax; the provisional taxpayer (speaking generally, the non-salaried person and companies excluding gold-mining companies) and other proposed consequential amendments to the South African Income Tax Act.

The memorandum includes twenty-eight practical examples on the application of the proposals to companies, individuals, employees and employers, as well as specimens of the official forms which will be required to be completed.

It will be noted that, probably because of the much smaller number of taxpayers involved, the South African Government has decided to make the system applicable to both salaried and non-salaried taxpayers (with some minor exceptions) and companies, and the system has many other differences when compared with that in use in the United Kingdom. For example, the number of tables to be used in calculating deductions for employees is comparatively small and the elaborate method of aggregating earnings and tax deducted is not presently provided for.

Copies of the memorandum may be obtained from the Secretary of the Joint Council, P.O. Box 2995, Johannesburg, price 10s, post free.

### First Chair of Costing

ACHAIR of costing, which we believe to be the first, has been established in South Africa at the University of Potschefstroom and the Council of the University has appointed Dr A. J. E. Sorgdrager, M.COM., B.A., A.C.W.A., as the first holder of the chair.

Dr Sorgdrager was born in Djakarta and went to South Africa at the age of 16. During the Second World War he served in the Netherlands Army and took part in the invasion of Normandy where he was wounded. As a result of his wounds he was discharged and served with the Netherlands Ministry of Education in the United Kingdom until the cessation of hostilities. On his return to South Africa he became a citizen of that country. He becam a member of The Institute of Cost and Works Accountants in 1952.

### UNITED STATES

### Accounting Practices for Reporting to Management

WRITING in the N.A.A. Bulletin (National Association of Accountants) recently Dr Charles T. Horngren, C.P.A., Associate Professor of Accounting at the Graduate School of Business, University of Chicago, examined in a masterly survey the needs of accounting for management's decisionmaking purposes. He suggests that managerial economists, operations researchers, and statistical decision theorists have made more progress than accountants in attempting to formulate general quantitative approaches to special decisions. Management accountants need to keep abreast of the growing body of knowledge and standards concerning the decision-making process. He instances the general superiority of discounted cash flow approaches in capital budgeting decisions as gaining increasing acknowledgment.

Dr Horngren develops the theme of relevant costing, stressing that relevant costs for decisions are ex-

pected future costs that will differ under alternatives. He urges that accounting reports should be designed to highlight the relevant data approach. Thus the income statement should be designed to facilitate its possible use for many purposes, with more than the single income figure of the conventional statement. He exemplifies this with a model income statement by segments, defining a segment as any line of activity or sub-division of the business for which separate determination of costs and sales is wanted. For each division he arrives successively at (1) contribution margin (sales less variable manufacturing cost and variable selling and administrative costs), (2) performance margin (after deducting fixed expenses directly identifiable with divisions), (3) segment margin (after deducting other fixed costs allocable to the segments), and (4) net income before income taxes (after deducting joint fixed costs not otherwise allocable).

In conclusion Dr Horngren stresses the need, with regard to long-range planning and special decisions, for an approach looking to the future and de-emphasizing historical revenues and costs. The conflict between the purposes and methods of conventional and management accounting must be fully recognized.

### **INDIA**

### **New President of Indian Institute**

SHRI P. BRAHMAYYA, has been elected President of The Indian Institute of Chartered Accountants for the year 1962-63. The new Vice-President is Mr R. C. Cooper.

### OVERSEAS TAX DEVELOPMENTS

The following notes, prepared by the Foreign Section of the Inland Revenue Library and reproduced by permission of the Board, supplement or amend the information in *Income Taxes in the Commonwealth* or *Income Taxes outside the Commonwealth*.

### Federation of Rhodesia and Nyasaland

The 1962 Budget Proposals in respect of income are contained in the Taxes Charging Act and the Income Tax Amendment (No. 2) Act, 1962.

The Taxes Charging Act includes the following:

Rates of tax. No change except that the lower rate of tax for private companies (5s 5d) will apply to the first £50,000 of income, with provisions for aggregation of companies under the same control.

Tax rebates. The total income tax rebates, excluding that for blind persons, are not to exceed £250 for married and £215 for single persons.

The rebate for insurance premiums is 3s per £ for the first £120 and 1s 6d thereafter, maximum rebate £27. Employees' contributions to approved pension funds in excess of the admissible amount can qualify for this rebate.

The special rebate is raised from 10s to £1.

Dividends. The present system of grossing-up is being dropped. Dividends will not be included in income for income tax purposes, but will be included net for supertax purposes. Persons, other than companies, ordinarily resident in the Federation will receive an *investment credit* on all dividends which were grossed-up under the previous provisions.

This credit is computed at 11s in the £ on the net dividend for married persons whose rateable income does not exceed £800 and single persons whose rateable income does not exceed £405; rateable income is the taxable income, including current loss but not a loss brought forward, plus the net dividends. For incomes above these figures the rate per £ of the credit reduces by 1d for each £25 for married or £15 for single persons that the rateable income exceeds £800 or £405 as the case may be, ceasing at £4,100 for married and £2,385 for single persons.

Where the credit exceeds the income tax and supertax payable, the difference, plus 20 per cent of the difference, is refunded subject to a maximum refund of  $\mathcal{L}_{1,000}$ . Where the tax exceeds the credit, the credit, up to a maximum of  $\mathcal{L}_{1,000}$  and without any percentage increase, is deducted from the tax payable. Certain exempt bodies, such as local authorities, nonprofit societies, building societies, statutory authorities and charities, receive the full credit without limit and without percentage increase. Where there is no rateable income, for instance as a result of current loss, the credit is refunded plus 20 per cent, maximum  $\mathcal{L}_{1,000}$ . Territorial surcharges are to be calculated on the net tax after deduction of investment credit.

The Amendment (No. 2) Act contains a number of technical amendments and the following most important points:

Benefits in kind. Certain payments on the taking up or termination of employment are now specifically taxable, as also are certain payments by employers towards the cost of journeys not connected with business. Except in the case of accommodation, the value of the benefit is the cost to the employer.

Exempt interest. The present exemption of interest received by persons neither ordinarily resident nor carrying on business in the Federation is from April 1st, 1963 to be restricted to certain types of interest only.

Mining. An allowance is introduced for expenditure, up to £100,000 in a year, on prospecting work for the

purpose of acquiring rights to mine.

Payment of tax. A taxpayer may be required to pay provisional tax, based on his own estimate, in advance of the formal notice of assessment; such tax is payable in two instalments during the year following the period of assessment, and overdue payments or underestimates of tax are liable to interest as unpaid tax.

### Tanganyika

The provisions of the Personal Tax Ordinance have been extended to single women. The law has also been amended to aggregate the incomes of husband and wife for purposes of the tax.

### The Need for Special Reports

by IAN T. MORROW, C.A., F.C.W.A.

ALMOST every writer and speaker on the subject of the contribution made by the accountant in industry describes well-developed and well-organized systems producing efficiently at regular intervals reports and statistics which provide management with all the information they can reasonably expect to have to enable them to run their business successfully. In most industrial and commercial organizations this is a pipe-dream and far from the truth, due largely to the inability of any system to anticipate all the information management requires.

To fulfil management's requirements, demands, in large measure, special ad hoc reports on various phases of the company's operations. It is on these ad hoc reports, rather than on the regular reports, that many of the most important managerial and policy decisions are made. Because of their importance to management, the effectiveness of an accounting department is often judged, not by the speed and accuracy of the regular reports, but by the speed and accuracy of the ad hoc reports demanded. It is neither practicable nor wise to produce regularly all the reports that might be required by management. To do so would make the cost of accounting uneconomic and the very weight of reports would mean that a large proportion would not be used. Knowing that management will need these special ad hoc reports, the practical solution is so to organize the basic data that it is possible with the minimum of effort and time to produce special reports.

Normally, the special report has to be in much greater detail than the routine report and covers a much narrower field. In fact, with the trend towards short and concise reports there is a danger that the act of compression may hide in average figures extremes of good and bad performance, and the good accountant will be checking constantly the details behind the summaries to make sure that misleading data is not being presented.

No matter how well-planned and organized the accounting system is, and how skilled the individuals in the department may be, there are bound to be occasions when the enthusiasm of management for detailed information outruns their common sense and the cost of getting the information exceeds any value it may have. When things are as bad as this, management either has to make do with what it already has or resort to guess-work or judgment.

In times of change or crisis the demands for special reports will be much greater than when things, alas-

A paper presented at the recent Eighth International Congress of Accountants in New York

only too seldom, are proceeding according to or better than plan. Many of these special reports will not be accounting reports at all, some will be a mixture of accounting information and other information, and some will contain accounting information only. Reports may cover economic forecasts, forecasts of product demands, the effect of price changes, technical advances, etc. The practice is often for the non-accounting reports to go direct to management and not to be seen by the accountant at all, with the result that they may contain misstatements which could have been rectified had they been checked by the accountant. It is a vexed question as to whether all reports should be routed through the accountant or whether a proportion should go direct to management. On balance, experience seems to indicate that it is better, provided the management accounting team justifies its name, for all the reports to be scrutinized by the accountant before being presented to manage-

The summary which follows, giving the kind of special reports which are asked for by management, is culled from personal experience largely in the United Kingdom; the experience of others may be quite different and the practice in other countries may vary. Some of the reports described as special reports may be, in the opinion of others, routine, and it may be that the list is too short and there are many more to be added.

Mr Ian T. Morrow, C.A., F.C.W.A., the author of this International Congress paper, is managing director of U.K. Optical Holdings Ltd. He is a member of The Institute of Chartered Accountants of Scotland and a Past President and a member of the Council of The Institute of Cost and Works Accountants.



The reports may be summarized or grouped thus:

### Internal

- (1) analysis of costs;
- (2) analysis of profits;
- (3) predictions or forecasts;
- (4) analysis of the effectiveness of reports.

### External

- (1) competitors' performance;
- (2) market research;
- (3) economic data.

### Internal

- (1) Analysis of costs normally takes the form of a Metailed analysis of a narrow range of the costs of production or overheads, comparing the result either with past figures, budgets, or what can be gleaned of competitors' figures.
- (2) Analysis of profits discloses the net profit contributed by different products and the gross or marginal profit contributed to the company's fixed cost and profit.
- (3) The above two groups deal with current and past actual results, the third group, predictions or forecasts, deals with the future. The normal quarterly, half-yearly and annual budgets are so infrequent as to be regarded as special reports. In addition to the normal budget reports, forecasts will be required when new products are being launched or when capital expenditure is being considered, or when circumstances have changed so widely as to make the assumptions on which existing forecasts or budgets are based wholly false.
- (4) Management from time to time requires to be satisfied that the very considerable expenditure incurred in obtaining a regular flow of reports is justified and that effective use is being made of these reports. The obvious question to ask is 'Do they produce effective action, or do they prevent ineffective or dangerous action?'

### External

- (1) Management is perennially interested in competitors' performance, either in profits earned or their share of the market, their pricing policy, etc.
- (2) From time to time the state of the market must be surveyed and analysed. This comes under the general heading of market research.
- (3) Economic factors and Government action or inaction at any time, but more particularly in this day and age, affect greatly a company's operation, and a study of these determines whether a company can hope to expand in the near future, or should plan for contraction, and whether current results are due more to fortuitous economic factors than to management.

What follows is a more detailed consideration of the types of reports called for by management.

### **Analysis of Costs**

It is a maxim that any expenditure will grow more than its usefulness justifies if it is not kept either under constant check or from time to time rigorously and ruthlessly reviewed and investigated. Management must at all times be on the look out for means of either reducing costs or avoiding increases in costs, or, through changes in external circumstances, such as shrinkage of the market or competitive pressures, it may have to make sudden cuts in costs to enable the company to survive.

### **Direct Costs**

Direct labour and direct material are normally under tight routine control, but even here special investigations from time to time reveal slacknesses and waste. In dealing with direct costs the accountant usually requires the assistance of other departments with technical knowledge who can express views as to whether cuts envisaged can be carried out without affecting the quality of the product.

One of the large hidden costs lies in the underutilization of production facilities. In the production standards there will often be built in allowances which are no longer applicable and are excessive, resulting in a high theoretical usage but in practice a low 'true producing time'. When these facts are pointed out by the accountant, organization changes can be made which will increase the true use of the facilities.

It is often possible to use different grades of raw material without affecting the quality of the final product. From time to time the reasons and the cost of using a particular grade should be examined.

### Cost of Wages and Incentive Schemes

It is part of the hallowed tradition that an incentive scheme means a higher productivity than day work, and in many instances this is undoubtedly true, but like every generalization it should be thoroughly tested from time to time. It involves considerable recording and costly wage offices. An incentive scheme may have outlived its usefulness and in spite of all the elaborate recordings, time study, etc., the company is really on a day work basis, and if this is recognized, and provided lower management is sufficiently good to see that the tempo is kept going, then the elaborate piecework system may be abolished with corresponding reductions in cost.

### **Overheads**

It is in the field of overheads that opinions differ as to the value of the expenditure. Every company has a history of expenditure increasing rapidly in times of boom and of the inevitable and unpleasant cuts when the boom is over or when it is decided that a company's expenditure has outrun any likely increase in income. Sweeping arbitrary cuts are to be avoided as these can be disastrous to the morale of the company. Such reductions are indiscriminate, reducing the efficient as well as the inefficient, and very often causing considerable unrest in the staff with the result that many of the good people leave to get other jobs before they too come under the axe. Staff generally will put up with cuts which they know are justified, provided they do not happen too often, but they will not tolerate for long arbitrary cuts at the whim of top management. Nevertheless, it is part of the normal growth pattern of a healthy company that some bloodletting should occur from time to time. Professor Parkinson has demonstrated what happens if this is not done.

Each item of overhead expenditure has to be considered in detail and an appraisal made as to whether it is justified and reasons given either for its continuance or for its being cut out. It is common for these reports to state the overheads quantitatively rather than in money figures, i.e. number of people involved, or, in the case of communications, number of telephone calls, cables, telexes, etc.

No matter how carefully the investigation is conducted and the report drafted it will not be possible to get unanimous acceptance of the report's findings. This is due to the great difficulty in arriving at the value of services such as accounting in relation to what they cost. Management, obviously, has to make its own judgment on the validity of the reports.

Important though these investigations are, little data is being published. Many more comparisons between firms should be made. It is difficult to find a reason for this paucity of published information. It may be that management is sensitive on the subject and does not wish to admit to having got into the state of having swollen overheads, or possibly because the reports contain a large amount of opinion which might be challenged and made to look ridiculous if it were public knowledge.

### Cost of Keeping Stock

The cost of keeping stock is one of the great unknowns in company expenditure. It is both difficult to assess and difficult to decide what are reasonable costs of keeping stock. What is certain is that the cost of keeping stock is high. Various estimates of cost have been published, varying from 6 per cent to 25 per cent.

It is always easy to assess the cost of not having stock and this, along with other factors, helps to create vested interest in large stocks. Many reasons are advanced to justify larger stocks than are truly necessary — the pressure for quick deliveries, the avoidance of constant detailed checking of the inventory, the economies to be derived from large orders, and the claim that without large stocks it is not possible to give long runs to the factory to enable production costs to be kept to a minimum. All these reasons are valid provided a balance is maintained.

It is fairly easy to arrive at the cost of stock contro!, accommodation, staff and the interest on the investment. These, however, are minor compared with the losses that occur through surpluses, obsolesence, deterioration and pilferage. There is no other way of quantifying these losses except by detailed periodical investigation.

This is a field in which much research is required. Each industry and company must decide for itself what risks of stock losses it is prepared to take, or compelled to take, and use its best endeavours to keep within this figure.

### Cost of Paperwork

In the evolution of control in a company, forms and returns are designed to give detailed and meticulous information to enable action to be taken, but the preparation of these forms, and often the printing and filing of them, is an expensive business, and no matter how cherished or hallowed by tradition particular returns may be they must be studied to see if they give a positive answer to the questions 'Are they worth while?' 'Do they pay?'

It is equally true that in practically every wellorganized company a not inconsiderable part of the paperwork has outlived its usefulness and only exists because it has become a habit. In fact it is surprising the number of returns and forms that are prepared of which the higher management is not aware. Just as it is part of the perpetual audit system that a section of the stores is studied and checked every month, then a part of the paperwork set-up should also be checked and studied. Much detailed information which was necessary at one time to get some control on relatively small items of expenditure comes, in time, to cost more than any possible loss through control being absent. This applies very often to small items in the stores either for use in the shop or for use in the service departments.

It is surprising to find on investigation how many ad hoc special reports become part of the regular reporting system because no one has the responsibility of stopping them after their purpose is served. Apart from the money wasted in preparing returns and reports not used or required, staff morale suffers through people doing work which they know will only result in more paper to be filed with no action taken.

### **Cost of Quality**

Maintaining a specified quality can be an expensive business. The need for the standard of quality and the means taken to ensure it should be questioned from time to time. It is obvious that when a new product is introduced a company, jealous of its reputation and taking every step to reduce to the minimum troubles in the field, will set up comprehensive inspection and quality control. During the running in of the new tooling and during the time when the staff are becoming familiar with the

product it is essential to spend heavily on quality control, but within a period which will vary with the product some of the inspection procedures and quality standards become superfluous and could be eliminated. Unfortunately, original inspection and quality standards are often allowed to run on for years after the necessity for them has disappeared.

It is not for the accountant to set inspection and quality standards, but it is possible for him to suggest to management that a reduction in operational inspection, with a consequent higher percentage of rejects at final inspection, would be justified by the saving of inspection costs and the speeding up of production processes.

It is often found that the standard of quality of the product is above that of competitors, and above what is commercially demanded by the market, and that the company derives little or no benefit from this igher standard, customers not recognizing that the product is better than the competitors' and better than is commercially necessary. A slight lowering of quality standards may have quite spectacular effects on the cost of production by increasing the proportion of acceptable production.

Insistence on low scrap percentage can become an expensive fetish not justified when analysed in detail. Production may be speeded up, tooling simplified and inspection costs cut if scrap is allowed to find a higher level. In the long run it may mean using less skilled labour.

On the other hand, excessive scrap adds greatly to the cost of production and can price a product out of the market. The balance is constantly changing and must be continuously reviewed.

### Cost of Sales

The cost of obtaining orders and of moving the products from the production line to the ultimate consumer are expenses which often show the greatest variation between one industry and another, and between one country and another. They are compounded of competition, geography and the customs of the trade - many trades spoil the customers by giving excessive and expensive service. Nevertheless, as production costs decrease, selling and distribution costs represent a growing part of the final cost, and as such have to be studied. There is a temptation when a large production unit has been built up to spend lavishly on selling and distribution in the hope of keeping up the volume necessary to run the production unit efficiently and cheaply. On the other hand, a company may be losing sales through not spending enough on advertising, representatives and other forms of order-getting. For example, a company may whave too many products and ask a salesman in one area to devote himself to selling all these products, with the net result that some are pursued and others are neglected.

The direct sales expenses are the cost of advertising, the cost of the representatives, special exhibitions and special promotional expenses such as free gifts or discounts. These items must be analysed in detail by geographical districts, by products, or even by customers.

Certain products which are no longer profitable are retained because certain customers like to continue to have the product, usually expecting to pay a price which is well below the cost. The justification for this or any other special favour practice can only be a large volume of profitable business.

The selling costs are another item that it is difficult for the accountant to evaluate accurately, but in the end judgment and opinion will decide whether the costs should be increased or decreased in given circumstances.

Indirect costs of sales are the costs of stock, aftersales service, replacements under guarantee, transport and obsolete stock. These items are more susceptible to analysis and investigation and in certain instances can be studied as though they were a factory expense.

A particular item worthy of study is transport. Are the goods packed in such a way as to obtain the best rates? Is the company's own transport more effective or less effective than public transport?

The fact that it is difficult to find a means of measuring what sales expenditure ought to be should not deter management and the accountant from periodically making a detailed study of the nature of the expenditure.

### Cost of Research, Design and Development

This is a field in which the accountant's voice is less welcome than in any other. Industry is being constantly exhorted to increase its research and many companies have succumbed to the propaganda and have engaged highly-qualified scientists to do research, without any clear policy but in the hope that some miraculous product would turn up. Research and development should at least be brought into the context of what the company can afford and what the company expects to get for it, and, human nature being what it is, there is just as likely to be waste and extravagance in the research and development section as in any other, and a periodical check on what is being spent and what is being got for it is both salutary, corrective and necessary.

### Cost of Communications

Although communication becomes more efficient, the costs of communicating are steadily rising. Expensive forms of communication, such as cables and telephones, are often used when a simple letter would suffice. This applies equally to communications with customers, suppliers or internal departments. As the the use of telephone, telexes and cables increases, so does the number of staff required to handle both the paper and the instruments. Apart from investigating whether the facilities are being abused, it is obvious

that it is worth while investigating whether they are being used to an economical extent or merely being built up to deal with exceptional peak loads.

### **Analysis of Profits**

The final figure on the profit and loss account in most companies is often a summation of large profits, break evens, and losses from many different products. A great deal of work has been done in recent years on direct costing and marginal costing. These techniques applied to profit analysis show the contribution the different products are making to overheads and profit and often reveal a quite different picture from the summary of net profits and losses which is struck after a large amount of arbitrary apportionment of expenses has been undertaken. Such analyses enable management to decide what is the lowest price they can accept to get high volume, or alternatively, how much money they can afford to spend to increase the volume and still increase the net profit. Comparison of the contribution and profitability of the different products can lead to changes in policy of manufacturing, distribution and development.

These are sophisticated techniques and can be dangerous if not used properly. They are not, for example, a good guide towards price fixing.

More interest is being taken than ever before in the profitability on the capital employed, and analysis of the capital employed by different products and the profit earned by that capital will give management an excellent picture of the company's operations and will separate the true profit-makers from the others.

### **Predictions or Forecasts**

Most companies have a well-thought-out and well-recognized routine for preparing budget plans and these, today, are common, but nevertheless, from time to time it is necessary for policy reasons or because of changed circumstances to make special forecasts. For example, when spending on new capital or instituting a new product it is necessary to forecast the market, the selling price, the cost price and thus the profits and the amount of capital that will be absorbed, or, if it is decided to withdraw a product, forecasts have to be made of the reduction in investment, the idle plant that the company might be left with, and the effect on the company's other sales and general position in the market.

### Competitors' Performance

### Interfirm Comparisons

Some progress has been made on this subject in Great Britain through the use of the Centre for Interfirm Comparison set up by the British, Institute of Management.

It is worth stating that the more information that

companies voluntarily give, provided they all do it, the better for the industry, and there is less likelihood of major decisions being taken which will lead to disaster. The practice of publishing information varies widely by countries and it is true to say that generally the United States lead in the information required from public companies.

### **Market Research**

Market research is becoming almost a necessity to industrial companies, but in many industries it is difficult to get precise data and inevitably a large amount of opinion and judgment has to be brought in. This is not normally among the functions of the controller or management accountant's department but again, as has been stated throughout this paper, if he is brought into it he can be a valuable correction to the more optimistic views of some others. Today, all businesses are affected by the political climate or the general economic situation and the accountant, in most companies where they cannot afford a special economist, has to keep at his finger-tips the general economic situation and the economic data that will affect the performance of the market in which his company is interested. This can change rapidly and it is unnecessary to state that the great problem is to know whether a rapid change is a permanent one, a long-term one or merely temporary. Most managements take the view that most changes are temporary in the hope that they will not have to change long-term plans. On the other hand, many companies have been exceedingly successful because they correctly anticipated that a change in the economic climate was a permanent one and they took advantage of it accordingly.

### Conclusion

It is suggested that there is scope for considerable research by the accounting profession on the techniques of special investigations and reports, and on the role that the accountant should play. Experience indicates that even if the report is mainly technical and outside the scope of the accountant's knowledge, many mistakes can be avoided if it is checked over by the management accountant.

Interfirm comparisons have been mentioned only briefly because they are technically and politically difficult to achieve and it is also difficult for management to bring themselves to reveal information to their competitors. Nevertheless, a wider exchange of information in industry would improve the economic performance and would assist in the avoidance of mistakes.

In the modern age a great deal more accurate detailed information can be presented to management; the problem is to be selective so that the reports produced will initiate policy and action and will not merely be filed for future reference.

LEIG

### Weekly Notes

### SALARY SURVEY

A SURVEY of salary scales, recently completed by Associated Industrial Consultants from over five hundred returns submitted by companies throughout the United Kingdom, shows that the ages of chief accountants in the participating companies run from 26 to 70; the most populated age bracket, accounting for 21 per cent of the total, being 35-40. Salaries were shown to rise rapidly up to 39, at which stage some men, earning about £2,500 a year, choose to go into general management. Another exodus appears to take place at around the age of 57, when men earning about £2,800 per annum have the opportunity of taking up board appointments.

So far as median salaries of chief accountants and of company secretaries are concerned, these rise from £2,000 per annum in firms where the annual turnover is between £1-£3 million, to £3,825 in companies where the turnover is in excess of £20 million per

annum.

To judge by the report, there is not such a wide differential so far as the salaries of sales managers are concerned. For instance, their salaries are comparatively high, being about £2,000 a year at 30 and rising to £3,350 at 52 or 53.

Works managers on the other hand are considered to be most valuable at about 50. But their salaries have remained virtually static during the past few years, mainly because the emphasis has been on

increasing sales rather than production.

Apart from London and south-east England, over the executive field as a whole, salaries in the south are shown to be lower than those in the north.

### CONTINENTAL COMPANY DIRECTORY

LAST year, the enterprising publishers of Who Owns Whom issued a continental edition listing parent companies and their subsidiaries in France, Italy and Western Germany. The volume contained 9,000 entries and ran to 274 pages. The new edition for 1962-63, now available, has 23,000 entries and 630 pages. The reason for this expansion is twofold. Not only is there a 50 per cent increase in the coverage of the countries represented in the previous edition but Belgium, Luxembourg, Holland and those United States companies which have associated or subsidiary companies in continental Western Europe are also included. The directory thus caters

now for all six members of the European Common Market. Looking ahead as always, the publishers hope to add Austria, Switzerland and the Scandinavian countries to the growing list in next year's edition.

The pattern of the book follows the same style as before. Each country has two sections – one showing subsidiaries and associates in alphabetical order with their parent companies or senior associates alongside, and one showing parent companies in alphabetical order with their associates and subsidiaries listed underneath. It might make for easier reference if sections and countries could be made more readily identifiable by means of tabs or colours but this is a refinement which will no doubt be adopted when the directory ceases so visibly to grow and settles down to a consistent size. There can be no doubt about its present usefulness and the more comprehensive it becomes the greater will be its indispensability.

### PROTECTION OF DEPOSITORS BILL DEBATE

LAST week, clause I of the Protection of Depositors Bill was the subject of a heated debate in standing committee. An Opposition amendment, if carried, would have made it an offence within clause I to put the depositors' money to a use not stated to him when he made the deposit.

The Minister of State resisted the amendment and said that the accounting regulations to be made by the Board of Trade under the Bill would contain a requirement that the company taking deposits must show in its accounts the nature of its business. This was not well received. It was pointed out that deposits were normally made for less than twelve months and the time lag between making the deposit and seeing a note of a change in the company's business would be so long as to make the regulation useless.

There was another proposed amendment which would have made it illegal for a company to change its business without the consent of the depositors. The Government's objection to this was that it would stifle initiative. Finally the Minister said he would consider an amendment which would require the company to notify its depositors of any change in the business.

### STEEL AT THE YEAR-END

ACCORDING to the November figures for steel output the industry as a whole was operating at that time at a weekly rate of production equivalent to about only 70 per cent of its capacity. This was 7½ per cent lower than October (the best month of 1962 so far) and 5 per cent lower than that for a year earlier. There is, in consequence, little hope that total output for 1962 will exceed 20.5 million tons. This figure will compare with over twenty-two million tons in 1961 and the record figure of 24.3 million tons in 1960.

There was a gloomy crop of announcements and

<sup>&</sup>lt;sup>1</sup> Who Owns Whom. Continental edition, 1962-63. (O. W. Roskill & Co (Reports) Ltd, London. £7 post free.) ●

rumours to go with it. Stewarts and Lloyds Ltd have announced that because of the downward revision of estimates of future demand for iron and steel, the £18.5 million scheme to increase iron-making capacity at Corby has been deferred for a limited period. This was followed up by reports that owing to the drop in the demand for pig-iron, especially in the hematite section, a number of iron-making plants may shortly close. Output of pig-iron is being affected not only by reduced production of iron castings but by the greater use of scrap metal.

The recent surprising announcement that Stewarts

and Lloyds had approached the Whitehead Iron and Steel Co (a re-rolling concern with assets of £8.4 million) has set people thinking about the possibility of further rationalization in the steel industry. There have been few mergers in the steel industry for a long time although a certain amount of reshuffling has taken place during the denationalization process. The past year has been one of the most disappointing in the steel industry for the last twenty-five years and when the steel industry goes into the doldrums it is apt to think about rationalization.

### This is My Life . . .

by An Industrious Accountant

CHAPTER 152

WITH the New Year almost upon us, it seems time for stocktaking. Not the bustle of paperwork and listing and calculating that is progressing in the office outside, but my personal balance sheet and forward forecast. I'll leave my personal profit and loss account alone for a while, so far as last year is concerned; if there are too many blunders loading it down, they'll mark the pitfalls to avoid next year.

Interestingly enough for a harassed chief accountant, the work aspect has on the whole been very good. After years in your job, when you know your figures so well that discrepancies stick out like sore thumbs, the obvious mistakes are automatically avoided. A first-class accounts staff, alert and argumentative, are quick off the mark to keep one in line. In confidence, of course, they know their jobs better than I do and are usually a couple of jumps ahead of me. I have to strain to keep up with them, sometimes.

On the whole, I think there is no doubt that human nature is basically helpful. More than once our auditors' shrewd comments and courteous suggestions have masked the blunt fact that my operations have been below par. I slipped up in one approach to the Inspector of Taxes and that gentleman promptly telephoned me to discuss the point, suggesting generously that I might like to review paragraph four in the light of that 1957 case. Our bank manager, of course, is a tower of strength. His guidance on my credit-transfer report to the board, as I realized later, was largely responsible for what merit it had.

The real problem lies in the personal approach to one's colleagues, a work aspect too little understood. I am conscious that here I have probably transgressed too often. *Mea culpa*.

There was that time I noticed a clumsiness in one of our office procedures, where a revised arrangement would save a couple of man-days weekly. The office manager was rather slow to appreciate my point, or indeed to co-operate, I thought. 'Leave it be for a while,' he said testily. 'It's worked well enough that way for years now; what's the hurry?' I was rather caustic with him. I didn't remember his wife's long illness, his worried, sleepless nights. Mea culpa.

Or that time when our internal auditor brought along a bright suggestion for a change in our control system, involving him in more direct contact with the receipt of purchases in the transport section. I formed the uncharitable impression that he was empirebuilding, looking for independence and autonomy, weakening my own authority. So I was curt with him and picked holes in his scheme. Inexcusably, I made holes in his initiative, too, and in his self-esteem (and probably in his opinion of me). Mea culpa.

This behaviour probably derives from the outlook so easily developed by an auditor in his job of checking other men's work. He learns a critical approach, which is good; he also runs the risk of criticizing stingingly, which is bad. If he has a quick mind his personality is enhanced; he must beware of having a quick tongue, which can be a curse if misused. Between the two extremes, between his responsibility to be true to his salt in seeking improvement, and his moral duty to others to do-as-you-would-be-done-by, lies the golden mean. To learn to inspire is the key.

I like particularly that sentiment of old Benjamin Franklin, writer, scientist and diplomat: 'I made it a rule to forbear all direct contradiction to the sentiments of others, and all positive assertion of my own... when another asserted something that I thought an error, 'I denied myself the pleasure of contradicting him abruptly, and of showing immediately some absurdity in his proposition.'

That fixes my resolution for 1963. I hope it lasts.

### Finance and Commerce

### Never Again

MUCH has been learned from the track with mis-recent past, and I am satisfied that such misrades as have been made will not be repeated.' So spoke Col Sir Stanley Bell, chairman of The Astley Industrial Trust, at the company's twenty-seventh annual general meeting in Manchester in November. A section of the accounts for the year to June 30th last provide this week's reprint.

The company is a leading institution in hirepurchase finance for motor vehicles and the chairman's observation refers, of course, to the almost unbelievable happenings in car hire-purchase that followed the removal of controls in 1959. If the full story of the bubble that burst is ever written, one fears it may seem too far-fetched to be true.

In his statement with the accounts, Sir Stanley reminds shareholders of his earlier warning that 'current profits may be needed to provide adequate reserve against bad and doubtful debts stemming from agreements entered into during 1959-61'. This proved to be the case and in consultation with the company's auditors, the board - 'in the light of the hardening position against recovery of doubtful debts'-considered it was increasingly necessary to make even fuller provision in respect of all defaulting accounts.

### **Doubtful Debts**

In the context of the dismal picture of depression in second-hand values, and the abnormal number of repossessions experienced by finance houses, Sir Stanley refers to the difficulties in the collection of defaulting accounts through the Courts which 'has made a substantial impact on the value of those accounts'. The same events, he says, 'have had a serious effect on traders and losses have been experienced through their inability to meet their commitments'.

The chairman's statement was written before the November reduction in car purchase tax from 45 to 25 per cent and the effect of the reduction on secondhand values may deepen the meaning of Sir Stanley's

At the company's annual meeting he was able to state that in the first four months of the current year,

trading had been on a satisfactory and profitable basis. He was confident that the directors would be able to submit a much more acceptable report next year subject to unforeseen or adverse conditions.

### 'And Surplus'

HAT does 'and surplus' mean when it is part of 'future taxation'. The point occurs in the accounts of J. Hepworth & Son Ltd, the tailors, for the year to August 31st, 1962. The description appears in the company's own balance sheet but not in the consolidation which bears reference to Note 2. Note 2 runs: 'Future taxation includes the liability for the year 1963-64 and surplus in respect of the parent and subsidiary companies.'

It is possibly a minor matter. Odd queries can be involved in future tax computations and give rise to a feeling that it is better to be a little bit on the right side than the wrong. But to those who have known the areas of doubt in company balance sheets of the past - and have played no small part in urging their elimination - reference to 'and surplus' brings back memories. One recalls the 'credit balances' which sometimes went with 'creditors' but were not necessarily of the same character as creditors.

The chairman of Hepworths, Mr R. E. Chadwick, draws attention to a problem facing property owners of which much more should be heard. He refers to 'comprehensive development areas'. There is only limited experience of these at present, but public interest in town improvement and development is bound to result in more being propounded.

### Freehold v. Leasehold

What happens under these comprehensive schemes, Mr Chadwick points out, is that properties are compulsorily acquired by local authorities and handed to developers to replan. Reports from other quarters than Hepworths suggest that large-scale developers, by gaining local authority support, obtain what would otherwise prove expensive development business.

Mr Chadwick maintains that if nothing is done, traders tend to lose freeholds and to be offered leaseholds with frequent rent reviews instead; while the developer acquires something in the nature of a monopoly. He urges traders to combine to ensure that such schemes are not unduly monopolistic or grandiose, and that the dispossessed freeholders be offered freeholds or, at least, long leases at fixed rents. And, he adds, published profits of most store groups would look very different if they had to pay developers' rents for all their premises.

Incidentally, Hepworths is distinguished by having one of the comparatively few women members of the English Institute as its secretary, Miss A. C. Norton, F.C.A. Can it be that feminine caution is responsible for 'and surplus' in the future tax provision?

## THE ASTLEY INDUSTRIAL TRUST LIMITED CONSOLIDATED BALANCE SHEET AS AT 30th JUNE, 1962

£ 560.408	905,649	3,119,172	324,283	46,199		30.034,434			34,990,145
£ 588,288 27,880	1,246,524				2,741,801	198,721			×
FIXED ASSETS:—  Land and Buildings at Valuation or Cost  Less: Aggregate Depreciation	Plant, Machinery and Other Equipment at Valuation or Cost	acquisiti	400 f.D. (1961 £300,929)	UNQUOTED INVESTMENTS:—at Cost CURRENT ASSETS:—	Amount due under Hire Purchase and other Agreements and Advances on Loan	Stock and Work In Progress Debtors and Prepayments	Notes 2, 3, 4 and 6 also form part of this Balance Sheet.	STANLEY BELL  T. ROLAND BELL	4
1961 ———————————————————————————————————	524,481	3,072,277	315,433	70,077	30,583,765 2,693,881	136,980 260,250 596	-		32,786,254
issued £ 1,983,850 1,000,000	2,983,850	, 294.333	5,778,858	85,208	, ·	28,307,338		805,255	34,990,145
Authorised £ 2,000,000 1,000,000	3,000,000	70,590		•	21,401,818 5,654,071	1,251,449	435,714 281,717 60,755 27,069		7
SHARE CAPITAL:— 8,000,000 Ordinary Shares of 5/- each 1,000,000 61% Cumulative Preference Shares of £1 each	CAPITAL RESERVES:— Share Premium Account	REVENUE RESERVES:— General Reserve	TOTAL OF ISSUED CAPITAL AND RESERVES	AMOUNT SET ASIDE FOR FUTURE TAXATION:— Income Tax for the year	LOANS AND ACCEPTANCES.— Unsecured Loans and Interest Due Bank Advances, Bills and Notes Payable Hire Purchase Agreements Discounted 1,344,019 Less Discounting Charges Unexpired 92,570	CIBBENT HABILITIES AND PROVISIONS.		Ō	. *
1961 £ 1,983,850 1,000,000,1	2,983,850 2,418,648 79,655	325,000 13 <b>4,</b> 909	5,942,062	254,096	9,494,958	1,349,403	432,224 556,005 85,057 596	29,723	32,786,254

# HE ASTLEY INDUSTRIAL TRUST LIMITED TO US OLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30th JUNE, 1962 (Continued)

£ 4,486 26,000	93 113,165	17,578 48,812 50,000	116,390
86,097 51,257	54,768		
Profit for the year subject to Taxation Taxation surplus arising on consolidation Provision for Taxation no longer required Transfer from Taxation Equalisation Reserve Subsidiaries:— Unappropriated Profit from previous years Add: Transfer from General Reserve	Deduct: Unappropriated Profit carried forward Subsidiary Company losses attributable to Minority Interest	Net Profit of The Astley Industrial Trust Ltd Unappropriated Profit from previous years Transfer from General Reserve	
1961 2369,839 21,708 16,000	407,547	216,134	261,588
93,519 	17,578	39,813 60,755 15,822	116,390
Net Loss for the year  United Kingdom Taxation on Profit for year:— Income Tax Profits Tax Cost of acquisition of a Subsidiary Company Distribution to Minority Interest Profit retained in Subsidiary Companies Balance carried down being Net Profit of The Astley	Industrial Trust Ltd	Payment for Goodwill  Dividends less Tax on Capital of The Astley Industrial Trust Ltd.: 64% Comulative Preference Shares Interim Dividend Proposed Final Dividend of 5% on Ordinary Shares Balance carried forward by The Astley Industrial Trust Ltd	
1961 	407,547	15,000 39,813 72,906 85,057	261,588

## THE ASTLEY INDUSTRIAL TRUST LIMITED & SUBSIDIARY COMPANIES

Notes on Accounts for the year ended 30th June, 1962

 I. CAPITAL BESERVE.		ų	*
 Amount at 30th June, 1961 Profit arising from the realisation of Investments held by a Subsidiary Company	::	79,655 2,372	Lei
		82,027	
2. During the year the whole of the Issued Capital of one Company and the major part of the Issued Capital of a further Company have been acquired.	or part	of the Issued	
3. CONTINGENT LIABILITIES. There are Contingen Liabilities as follows:—			,
	Parent £	Group £	
Guarantees of Bank Advances and Acceptance Credits of Subsidiaries 3.3 Bills discounted in respect of a Subsidiary Company (1961: £1,290,000) 1,4	3,325,017	1,490,000	
4,8	4,815,107	1,490,000	

Accounts in respect of one Subsidiary have been prepared for the year ended 30th September.	1961. In the Directors' opinion, it would not be practicable to change the accounting date at the	
. Accounts in respect of one	1961. In the Directors' opin	present time.

. Included in "Amounts due under Hire Purchase Agreements" is an amount due from a Subsidiary of £165,625 (1961: £146,723).

There is an agreement under which The Astley Industrial Trust Ltd, may be called upon to purchase the Preference Share Capital of a Subsidiary at present held by outside Shareholders amounting to £12,400 (1961: £29,500).

The emoluments of the Directors of The Astley Industrial Trust Ltd., from all members of the Group are comprised of:—

1962	]	9,475	12,973	54		22,989	
1961	ļ	2,972	15,702	<del>1</del>		26,218	
		:	:	:			
		:	:	:			
		:	:	:	•		
	-	:	:	:			
		:	:	:			
		:	:	:			
		:	:	:			
		Directors rees	Ctner Emoluments	rension Contributions			

### **Property Values**

ANOTHER view on property values was recently provided in a statement from Marco Refrigerators to its shareholders and creditors. This company faced liquidation. Certain interests in Jersey were prepared to take it over and inject new business into it. They made an offer to the creditors which, if accepted, would have paved the way to a reconstruction of capital. Time was running short; the bank was not prepared to continue supporting the company indefinitely.

Then Work Simplification Ltd stepped in, but according to Mr E. G. Batt, the chairman, failed to put forward any firm proposals and refused to give the name of the principals. With this intervention, however, some creditors rejected the offer; others just waited. And as Mr Batt pointed out, the delay 'severely jeopardized the interests of creditors and shareholders as the financial life-blood of the

company is fast ebbing away'.

Mr Batt explained that the bank had not agreed a figure for the value of the freehold factory which was

its security and he understood it would not do so until the outcome of the offer to creditors was known.

But Messrs Fuller Horsey, Sons & Cassell who had valued the factory as a going concern last January at £170,000 were putting the value under 'forced sate in a liquidation' conditions at 'not less than £140,000'. Which is a reminder that valuers can value, but the final test of values is what a buyer will give under the particular circumstances.

### **New Capital Issues**

STATISTICS compiled by the Midland Bank show that the amount of 'new money' raised in the United Kingdom in November was £25.7 million. This brought the total for the first eleven months of 1962 to £561.2 million, which compares with £587.8 million in the corresponding period of 1961. Among the issues included in the total for November were those for The Royal Bank of Scotland (£6.9 million), Mecca Ltd (£4.2 million) and Redland Holdings Ltd (£2.9 million).

### CITY NOTES

In the investment world there is, this year, a marked lack of enthusiasm for the magical quality of New Year. December 31st and January 1st are merely two consecutive days, but the magic is in the fact that one is the last day of an old year and the other the first of the new, when hope's eternal spring usually turns into a gusher.

But not apparently this year. There is an uncomfortable feeling that, although the economic taps have been turned on, 'the main' has been turned off for so long that the pipes have rusted. If there is no force of water, turning on the tap achieves little. The Chancellor, it is thought, will have to see to the main in 1963. Stock-market conditions up to the end of the year hardly suggested an investment view that the mains water will flow particularly strongly, at least in the first half of 1963.

There have been hints of 'novel methods' to be introduced, but a traditional method – a reduction in Bank rate – seems the most likely first move in the New Year. One of the mistakes of the 1958–59 credit free-for-all was the maintenance of Bank rate at 4 per cent throughout that period. If credit is to be free, it should also be cheap.

Lifting of bank lending restrictions and the release of special deposits have so far had only marginal effect on the volume of bank lending. There is still much to be done before business and stock-market confidence is likely to be fully restored.

### RATES AND PRICES

Closing prices, Friday, December 21st, 1962

Tax Reserve Certificates: (interest rate) 25.8.62 21%

Bank Rate							
Oct. 27, 1960	5½%	Nov. 2, 1961	6%				
Dec. 8, 1960	5%	Mar. 8, 1962	5½%				
July 26, 1961	7%	Mar. 22, 1962	.5%				
Oct. 5, 1961	6 <del>1</del> %	April 26, 1962	41/2%				
Treasury Bills							
Oct. 19 £3 145		Nov. 23. £3					
Oct. 26 £3 175		Nov. 30 £3	13s 9·47d%				
Nov. 2 £3 168		Dec. 7 £3	13s 9.66d%				
Nov. 9 £3 175			125 4.314%				
Nov. 16 £3 155	11.09 <i>d</i> %	Dec. 21 £3	12s 4.66d%				
	Money	Rates	***				
Day to day	2 <del>7</del> 37%	Bank Bills	,				
7 days	23-37%	2 months	3 <del>13</del> -37%				
Fine Trade Bills		3 months	3 18-38%				
3 months	5 <del>1</del> -6%	4 months	3 13 -3 7%				
4 months	5 <del>1</del> -6%	6 months	3 <del>18</del> -3 <del>18</del> %				
6 months	5 <del>1</del> -6½%						
	Foreign E	xchanges					
New York	2.80∯	Frankfurt	11.18‡				
Montreal	3.01 🐕	Milan	1740				
Amsterdam	10.08 <del>}</del>	Oslo	20.02ફ				
Brussels	139.47	Paris .	13.74				
Copenhagen	10.314	Zürich	12.10				
	Gilt-e	dged					
Consols 4%	70	Funding 3% 5	9-69 90 <del>1</del>				
Consols 2½%	441	Savings 3% 60	70 88 <del>1</del> -				
Convision 51% 1		Savings 3% 65	-75 81 <del>√8</del>				
Conversion 5% 1		Savings 2½% 6					
Conversion 3½%		Treas'ry 5½%					
Conversion 3½%	611	Treasury 5%	3689 93 th				
Exchequer 5½% I	966 102 3	Treasury 3½% Treasury 3½%	77-80 801 79-81 801				
Funding 5½% 82- Funding 4% 60-	-84 100½ 90 94¾	Treasury 3½%	79~61 604 442				
Funding 3½% 99	-04 68 m	Victory 4%	977				
Funding 3% 66-		War Loan 3½%					
~	J-4	32/	,0				

### Correspondence

Letters must be authenticated by the name and address of the writer, not necessarily for publication. The Editor does not necessarily agree with, or hold himself responsible for, the opinions expressed.

### Tax Relief on Pension Fund Payments

December 22nd issue) the shareholders at the time be pension fund reserve was created did not suffer, fund being retained within the business. Tax haf is due under section 379 when the expenditure is made by the company and is no different from that available in respect of any other item of allowable expense. It is considered, therefore, that such tax relief would not normally relate back to the time the fund was created out of profits.

However, the resolution creating the fund in this case provides that, in addition to the fixed appropriation of £5,000, there is to be placed to the reserve 'any tax relief which may be obtained in respect of the payment'. Obviously the tax relief cannot be added to the fund but a sum equal thereto could be appropriated out of future profits if this is the desire of the members.

Yours faithfully, PENSION FUND.

### Training of Articled Pupils

SIR, – We were interested to read in your issue of December 8th, Messrs Whitehill, Marsh, Jackson & Co's letter of approval of the new full-time course for newly-joined articled clerks.

We would also like to express our appreciation of the great personal trouble that has been taken by the City of London College to make the course suitable for its purposes. From the time when we first approached the College with a request for such a course we have been most impressed by the care and the enthusiasm they have shown in devising a course that is both useful and of educational value.

The course at present lasts six weeks in all in two spells of three weeks with an interval of three weeks in between: three weeks in college, three weeks back in the office and then the second period of three weeks in the college. Each morning there are three lectures on the four subjects: accounts, auditing, income tax and law, and in the afternoons tutorials and study periods.

Twelve of our pupils who enrolled for the first two courses beginning in September and October included Oxbridge graduates and Bachelors of Commerce who had taken a university course recognized by the Institute. A graduate who had studied accounting for three years at a university naturally found some of the initial accounting rather elementary; but on the other subjects he found much that had not been covered in his university course and affirms that many of the lectures were at a comparable level and gave a new outlook on the subjects. All the pupils realized the benefit they had derived through being expected, during the second half of the course, to give papers lasting ten to twenty minutes on various aspects of the four subjects.

The reports of our articled clerks agree that before starting the City of London College course it is an advantage to have begun a preliminary correspondence course. On the other hand it is also, we think, equally true to say that before starting practical work on audits, it is a great advantage to have been to the City of London College. Based on our initial experiences we shall for the present aim at enrolling our articled clerks fairly early in their first year, but will advise them to get in some reading and study beforehand.

Yours faithfully,
PANNELL, CREWDSON & HARDY.

London EC2.

### Traveller's Car Allowance

SIR, – I would appreciate the views of readers on the following: on behalf of a client, a commercial traveller providing his own car, I submitted a claim for expenses and annual allowance on the car. A fixed sum is contributed by the employer to help with the expenses. The figures are as follows: expenses  $\pounds$ 216; annual allowance claimed  $\pounds$ 260; contribution by the employer  $\pounds$ 260. The Inspector says that as the employer's contribution exceeds the running costs, the capital allowance is restricted to the extent that the cost of wear and tear is covered by the computation of the capital allowance.

Using the basis of  $12\frac{1}{2}$  per cent of the capital cost of the car, says the Inspector, the computation is 9 per cent  $\times 12\frac{1}{2}$  per cent  $\times 6912$  equals 674, which is fully covered by the employer's contribution and he regrets that no allowance is due. Frankly I do not understand this, can anyone explain?

Yours faithfully,

T. STONE.

Westcliff-on-Sea.

[If the employer's contribution of £260 is intended to cover all the running costs and wear and tear of the car in respect of its business use, the employee will have to show that the expenses of running plus capital allowances exceed that sum if an additional measure of relief is to be obtained. The amount applicable to private running must be excluded.

The calculation set out in the final paragraph of our correspondent's letter is normally used by the Revenue in order to compute a director's benefit where a car is provided by a company for his use. It would seem to have no application in a case of this kind. – *Editor*.]

A monthly feature designed to keep readers - whether in practice or in commerce - abreast of the latest developments in the field of office equipment.

### Account Card Tray and Stand

WELL-DESIGNED accessories play a significant part in increasing the efficiency of accounting machine operators. A new ledger card tray and stand by Kalamazoo are planned to allow each operator to adjust conditions to suit her own exact requirements.

The stand, which holds one or two trays, is adjustable for height and has castors which are locked firmly into



Kalamazoo Ledger Card Tray and Stand

position by using a brake. An unusual feature is the projecting front legs which allow the operator to pull the tray up really close to the machine – an important factor in avoiding eye-strain.

The tray (in two sizes) has a 40 per cent higher capacity than its predecessors. Designed to maintain a perfect 'V' during work, it has a clip which, at the touch of a finger, compresses the cards into a solid pack for storage. Both side rails of the tray can be dropped to allow offsetting of cards and, whether raised or lowered, snap firmly into position.

Price: from £20 2s 6d.

Kalamazoo Ltd, Northfield, Birmingham 31.

### **Factory Intercom System**

DESIGNED specifically for noisy areas like factories and workshops is a new intercom system in the *Centrum* series. Like other systems by this maker, it uses no telephones, is all-loudspeaking, and provides two-way speech without manual switching.

The heavy-duty industrial master station is water-

### New Offi

proof and unbreakable. It can be linked to others of its kind or to the maker's office intercom instruments.

Making a call is simple: the user presses two of the twelve digit buttons (watertight, and plastic-covered), according to the number of the extension he want; and speaks. Incoming calls are signalled both audib! and visibly.

Speech is clearly reproduced, even in very nor conditions, the makers say, because the instrument fitted with a special noise-damping microphone. The master unit, which contains no active components straightful as valves or transistors, is said to be virtually unaffectiby temperature variations either in or out of descriptions.

Centrum Electronics Ltd, Terminal House, Gros venor Gardens, London SW1.

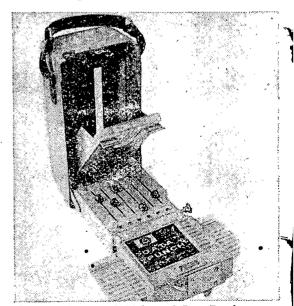
### Portable Data Punch

TO electric power (battery or otherwise) is required ror a new data buch. Designed to slip into a pocket, it weighs barely 2½ lb. and is about the size of a shorthand notebook. It punches rectangular holes in eighty- or fifty-one-column tabulating das or multiple-part card sets.

There are two basic models, one for punching only, the other for punching and printing. Either punches up to six digits at a time in any one card field.

To record data, the operator sets the figures or sliding knobs, checks them visually, locates the locks the figures in, and lightly presses a lever safety devices prevent figures being wrongly entered and, if desired, a final check can be made by placing the completed card over the panel of field figures provided on the front of the punch.

The card is positioned with a locating pin when data



Addressograph-Multigraph Data Punch

### uipment

re to be entered into one or two fixed card fields; a other cases, with a multiple card gauge fitted with a small sliding magnifying glass and fixed paper strip.

Designed for on-the-spot data recording, the punch tovides a means of making tabulator cards without necessity for verification.

Price: from £65.

Addressograph-Multigraph Ltd, Maylands Avenue, Smel Hempstead, Herts.

### Spirit Master Maker

the N interesting new machine, the Ditto Masterfax theorovides a clean, inexpensive method for making randuplicator masters direct from ordinary originals. This versatile device can also prepare offset masters, take ordinary photocopies or laminate plastic film to document surfaces.

The process is activated by heat. To make a spirit master from, say, an original containing print and line drawings, the operator merely places the original, along with a special type of carbon and a retaining envelope into the machine, closes the lid and sets a suitable exposure time by calibrating a dial. This action converts the original itself into a master. Alternatively, a separate master can be made by using an intermediate process on the same machine.

Time taken to prepare a spirit or offset master in this way is usually about fifteen seconds; cost, a few pence.

E. N. Mason & Sons Ltd, Arclight Works, Colchester, Essex.

### **Projection Teleprinter**

CREATLY magnified images of messages are Jautomatically displayed on a translucent screen by a modified version of the Seventy-Five teleprinter. This machine should be especially useful in noisy areas where even loudspeakers may fail effectively to enertate the din.

The teleprinter, which can be hooked up to receive hessages from a conventional page printing model, see a cellophane roll 5 in. wide and has a specially ondensed typeface. As soon as the message is received, he machine back-projects the text to the display screen. Screen size may vary, according to individual needs. But the makers suggest that 3 ft by 2 ft is a useful size.

But the makers suggest that 3 ft by 2 ft is a useful size. This requires a 5 ft 'throw' and provides 10:1 magnification.

Price: about £1,000 without screen.

Creed & Co, Telegraph House, Croydon, Surrey.

### Typist's Collator

ASSEMBLING paper and carbon for typing is a job which consumes a surprising amount of time hich might otherwise be productive. The new lette, a neat little desk-top collator, has been signed to do this job semi-automatically.

The device is a three-compartment Box mounted on sase which holds it sloped conveniently towards the er. To dispense one sheet of paper and/or carbon in the three compartments simultaneously, the

typist merely taps a bar. When making multiple copies, she depresses the bar again, this time ignoring the letterheaded paper, which drops back into place again.

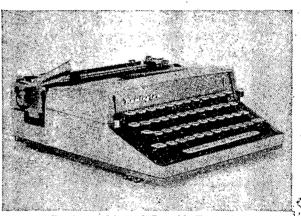
Price: with three stations, £8 8s. Price not yet fixed for five-station model.

Mailing & Mechanization Ltd, 72 Fleet Street, London EC4.

### **Portable Typewriter**

ALMOST all the facilities available o a full-size typewriter are incorporated into *Monarch*, a new portable in the medium-price range. Machines of this kind are being used increasingly by secretaries, who prefer the more elegant appearance of a small model and like its portability.

Monarch has, in addition to good looks, a number of sternly practical features. New among these are a tabulator with an automatic set and clear action, set by a single lever; and keyboard touch adjustment via a regulator set by the typist herself. Others include



Remington Monarch Portable Typewriter

visible margin stops operated from the front of the machine; a card and writing line scale for positioning cards, envelopes and documents; and a paper support.

The machine can use a two-colour ribbon and will cut stencils. It has the full complement of eighty-six characters. Weight (including black, zip-up travelling case) is 15 lb.; size, 12½ in. by 13½ in. by 4¾ in.; colour green with grey front panel.

Price: £31.

Remington Rand Ltd, Remington House, Holborn Viaduct, London EC1.

### **Heat Process Photocopy Paper**

NEW from Copycat is *Copytherm*, a paper for use with heat process copiers. Said to be permanently white, non-curling, easy to handle and non-pressure-sensitive, the paper also has a higher heat tolerance than usual.

Copycat Ltd, Greycoat Place, London SW1.

### **Pullman Business Machines Ltd**

Pullman Business Machines Ltd wish to refute a rumour which is said to be circulating to the effect that their machine or any part of it is manufactured behind the Iron Curtain. The Pullman Dictating Machine is manufactured in Denmark and the Pullman Centralized Systems are manufactured entirely within the United Kingdom.

Cost of original car Capital allowances on

### For Students

### TAXATION

### Capital Allowances for Motor-cars

In respect of privately used motor-cars new limitations on capital allowances are imposed by sections 23-27 of the Finance Act, 1961, and these apply for 1961-62 onwards. The new restrictions which apply only to expenditure incurred after April 16th, 1961, are as follows:

- (a) The amount on which capital allowances will be given for a motor-car is limited to £2,000. Where the expenditure exceeds £2,000, any balancing allowance or balancing charge arising on sale etc. shall be computed as if the amount received were reduced in the proportion which £2,000 bears to the cost of the car.
- (b) In arriving at the optional capital allowances on replacement, expenditure in excess of £2,000 is ignored and the sale price of the original motorcar is deemed to be reduced to the ratio that £2,000 bears to its full cost.
- (c) Where a car is hired for the purposes of a trade or profession, the deduction from profit in respect of the hire charges is to be reduced to the ratio that £2,000 bears to the full retail price of the car at the time when the contract was made.
- (d) In the case of a motor-car acquired under a hirepurchase contract (the retail price being in excess of £2,000), payments under the contract are to be apportioned between capital and revenue expenditure in the proportion of the cash price to the balance of the hire-purchase price. If the hire-purchase contract is not completed, then any payments made under it are to be treated as payments for hire (subject to the limitation in (c) above) and capital allowances are not to be given in respect of such payments.

It should be noted that the above provisions do not apply where the vehicle is provided for the purpose of hire to members of the public or for the purpose of carrying passengers in the course of a trade of that nature.

Illustration

(a) During the year ended December 31st, 1961, a company which makes its accounts up to that date incurs, after April 16th, expenditure of £4,320 on a new car to be used for private purposes. In 1963 the car bought in 1961 is sold for £1,080 and is replaced by a new car at cost

1962-63	Initial Annual	• •	• •	••	£600 500 ÷	
			•		, 1	
1963-64	Annual					22
					£,	: 67
	Proceeds of				c,080	, s
	reduced to	2,000 4,320	×£1,0	8o		50
	Balancing all	owanc	e	• •	÷ -	£17
1964-65	Allowance for	r new	car (as i	for 1962	<b>2</b> -63)	
	on	• •	••	•• •		∫,2,5^
(b) Assu of the orig	me that in (a) inal car were	abov £2,160	e the p	roceeds would	fr n t be redu	he s.
4,320	×£2,160				V;	1,01
less Resid	dual value	• •	. ••	• •		100
_					,	

Balancing charge

1964-65 Allowance for new car on

Initial and annual allowances will be calculat 1 amount.

less Balancing charge

### MERCANTILE LAW Title to Goods

T is a general rule of law, as well as a metter elementary common sense, that a man have her goods to which he has no title cannot pass a title to third party by way of gift or sale. But, like orbit general rules, this, too, admits of certain exceptions

An obvious example lies in the ordinary law of agency. An agent acting in the normal course of h duties can pass a good title to goods which belone his principal. Another example also occurs in the information of agency and concerns factors. If, in the information of his business, a factor has goods in his with the consent of the true owner then he good title to an innocent third party when the owner has given him permission to dis goods.

A third occasion where the rule does n found in the Sale of Goods Act. Where a p selling goods continues to have possession o or documents of title to them, the delivery of by him of the goods, or documents of title chaser in good faith, without notice of the sale, will confer a good title. Conversely,

56 VICTORIA STREET, LONDON, SWI

Telephone: Victoria 2002 (3 lines

REVALUATION OF

WORKS, FACTORIES, PLANT & MACHINERY, Etc.

person, having bought or agreed to buy goods, obtains, with the seller's consent, possession of the goods or documents of title then the transfer of the goods or locuments of title to a purchaser in good faith will confer a good title. This will apply, inter alia, to the seller sends the bill of lading to the buyer in advance of the goods. The buyer may then, by virtue of his cossession of the bill of lading, under a contract to buy, sell the goods to a third party and thereby defeat the seller's right to stoppage in transitu.

Note that in all cases so far mentioned the person attempting to pass the title has possession of the goods or documents of title with consent of the true owner. No protection would be afforded where the goods

were stolen.

Finally, there is the general point of law that a person with a voidable title to goods has a good title, which he can pass on to an innocent third party, until that title is avoided by the rightful owner; whereas a person who has a void title (e.g. one obtained under a void, as opposed to a voidable, contract) has no title and therefore nothing to transfer. If he attempts to transfer the goods, the true owner may recover them.

An exception of a kind occurs in infants' contracts. A contract which offends against the Infants Relief Act is void. Even so, an infant obtaining goods under such a contract is not considered to have a void title for he may validly transfer those goods to a third party who is acting in good faith. The exception probably arises from the fact that the Act was passed to protect the infant and not the other contracting party.

### Notes and Notices

### THE ACCOUNTANT

### Index to Vol. CXLVII: July-December 1962

The general index to this volume – July to December 1962, Vol. CXLVII – will be published with the issue dated January 5th, 1963.

The parts of this volume should therefore not be sent for binding until the index has been added.

### PROFESSIONAL NOTICES

Messrs Farrow, Bersey, Gain, Vincent & Co, Chartered Accountants, of 53 New Broad Street, London EC2, announce with regret the retirement on Recember 31st, 1962, of Mr Arnold L. Bersey, F.C.A., had has been a partner in this firm and one of its predecessor firms for more than fifty years. They also announce that they are taking into partnership on January 1st, 1963, Mr John W. Hawkes, F.C.A., Mr Patrick C. Hogan, F.C.A., and Mr Philip N. Grindell, M.A., A.C.A., all of whom have been on the staff of the firm for a number of years.

MESSRS NEWTON, ARMSTRONG & Co, Chartered Accountants, of 11 Grocers' Hall Court, London EC2, almounce that Mr Graham Laidler Fox is retiring from the partnership as at December 31st, 1962.

### Appointments

In R. A. W. Caine, F.C.A., has been appointed a director of Kirkstall Forge Engineering Ltd with effect from January 1st, 1963.

Mr C. E. M. Hardie, O.B.E., F.C.A., chairman of Thomas Preston Ltd, has been appointed a director of Melbray Group Ltd.

Sir Julian Pode, F.C.A., chairman of the Steel Company of Wales Ltd, has been reappointed President of the British Iron and Steel Federation for a second year.

### THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

### **Taxation and Research Committee**

The 125th meeting of the Committee was held at the Institute on Thursday, December 13th, 1962, at 2 p.m.

Present: Mr S. M. Duncan (in the chair); Messrs F. W. Allaway, G. R. Appleyard, G. L. Aspell, T.D., D. G. Bee, R. P. Brown, K. A. Buxton, J. Cartner, K. P. Chapman, D.S.C., L. H. Clark, P. G. Craven, T.D., W. F. Edwards, C. R. P. Goodwin, S. R. Harding, A. P. Hughes, G. N. Hunter, H. Kirton, T.D., S. Kitchen, J. W. Margetts, A. G. Martin, B. A. Maynard, G. M. Metcalf, S. A. Middleton, G. P. Morgan-Jones, F. L. Moulding, E. J. Newman, R. D. Pearce, J. Perfect, T. B. Pritchard, A. H. Proud, D. W. Robertson, C. Romer-Lee, B. G. Rose, H. G. Sergeant, H. C. Shaw, W. Shuttleworth, L. R. Turner, D. C. Urry and G. Wadwell (thirty-nine members) with Messrs A. R. English, R. O. A. Keel, J. F. Taylor, G. H. Vieler and G. S. Warburg, and the Acting Secretary and Assistant Secretary to the Committee.

### Sub-committees

Reports of progress were received in connection with twenty matters, and nominations were made in respect of a proposed new sub-committee.

### Future Meetings

The next meeting of the Committee was fixed for Thursday, February 14th, 1963. Further meetings in 1963 were provisionally fixed for:

Tuesday, April 9th, 1963.

Thursday, June 13th, 1963.

Tuesday, September 17th, 1963.

Thursday, October 10th, 1963.

Thursday, December 12th, 1963.

MOTOR — FIRE — CONSEQUENTIAL LOSS

### CAR & GENERAL INSURANCE LTD CORPORATION LTD

83 PALL MALL, LONDON, SW1

### **MEMBERS' LIBRARY**

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Basic Mathematics; by R. G. D. Allen. 1962. (Macmillan,

35s)
British Economic Growth, 1688–1959: trends and structure; by Phyllis Deane and W. A. Coley Cambridge. 1962 (C.U.P., 60s).

British Tax Encyclopedia: edited by G. S. A. Wheatcroft and others. Five (loose-leaf) vols. From 1962. (Sweet & Maxwell, 630s).

The Building Societies Act, 1962 with ... associated legislation: sixth edition; edited by R. B. Fuller. 1962. (Franey, 65s).

Le Commissaire aux Comptes dans les sociétés françaises. (Ordre des Experts Comptables et des Comptables Agréés). Paris. 1962 (O.E.C. et C.A., presented).

Le Commissariat aux Apports et aux avantages particuliers. (Compagnie Nationale des Experts Comptables). Paris. 1962. (C.N.E.C., presented).

The Corporate Planning Process; by M. C. Branch. New York. 1962. (American Management Association, 60s). Costs and Competition: American experience abroad; by T. R. Gates and F. Linden. New York, 1961. (National Industrial Conference Board, 160s).

The Dentist's Handbook on Law and Ethics with sections on...income tax and superannuation; by W. R. Tattersall, H. D. Barry (and others). 1962. (Eyre &

Spottiswoode, 37s 6d).

Direct Standard Costs for decision making and control; by

W. Wright. New York. 1962. (McGraw-Hill, 54s 6d).
\*Dymond's Death Duties; by R. Dymond: thirteenth edition by R. K. Johns. Two volumes. 1960. Third supplement 1962. (Solicitors Law Stationery Society, 147s and 22s 6d).

Economics and Industrial Efficiency; by H. Speight. 1962.

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& Evans, 25s).
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Law and Ethies for Doctors with. . sections on superannuation: income tax; by S. J. Hadfield (and others). 1958. (Eyre & Spottiswoode, 42s).

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\*This book has been presented to all District Society Libraries under the grant of books scheme.

An Outline of Statistics; by S. Hays: sixt; (Longmans, 15s).

Retailing in Europe: present structure and turner by J. B. Jefferys and D. Knee. 1962. (Margorite Sampling Inspection Tables: single and day by H. F. Dodge and H. G. Romig: seco York. 1959. (John Wiley, 64s).

Smith's Taxation: "v-sixth edition, edited ', 1962. (Advertise. ' 20s).

Wheldon's Business Stantics and statisti I rowho H. J. Wheldon: fifth edition by G. L. Thirk the (Macdonald & Evans, 36s).

### CERTIFIED ACCOUNTANTS' LUTY OF

The next luncheon meeting of The Certified and Corporate Accountants for take ( at the Connaught Rooms on Tuesday, is also 1963. The speaker on this occasion will the Transfer of the speaker on this occasion will the Transfer of the speaker on this occasion will the Transfer of the speaker of th Lund, C.B.E., Secretary of The Law Society, with called his talk 'Words not deeds'.

Members of the Association may obtain fig information from the Secretary, 22 Beoloid Se

London WC1.

### CHRISTMAS CROSSWORD: SOLUT

The solution to the Christmas Crossw ro by Mr Kenneth Trickett, F.C.A., which a last week's issue, is as follows:



### 1962 TAILPIECE

From the classified advertisement colu. Building Societies' Gazette for November:

'Ex-bank official seeks position handling cash, preferably without close supervisit engagement terminated unexpectedly, circumstances offer limited opportunities to proven ability and record.

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